MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to Analogic Corporation's Third 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 would like to remind everyone that a supplementary financial presentation will be used during today's call. If you have not already downloaded that presentation, you can do so at anytime at investor.analogic.com. That presentation will remain available until July 8, 2010.

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

Mark Namaroff, Director of Strategic Marketing and Investor Relations

Good afternoon, everyone, and welcome to Analogic's third quarter 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 investor.analogic.com.

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

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

James W. Green, President and Chief Executive Officer

Thank you, Mark. Let's move to slide two of the presentation and take a look at the highlights for the quarter. Starting off with revenues, revenues came in at $107.2 million, an increase of 15% over last year with Medical Technology revenues increasing 17% to 93.3 million, and Security Technology revenues staying roughly flat at $12.2 million. Our diluted earnings per share came in at $0.38. That's an increase of a 111% from last year, and our non-GAAP EPS increased by a 104% to $0.49 per share. Our GAAP operating margin improved to 6%, and our non-GAAP operating margin improved to 8%, and finally our operating cash flows improved to $13 million.

Moving on to slide three, take a look at our segment highlights. Starting with our CT and MRI segments, the business improved significantly from last year aided by stronger economic conditions. We entered into a new CT development agreement targeted to grow – to the growing emerging market and our gross margins improved driven primarily by leaning operations and cost containment. For Specialized Ultrasound, we saw a strong year-over-year revenue growth on continued penetration of our new Flex Focus family of products. We continue the expansion of sales rep coverage in the U.S. and we introduced the new Flex Focus 400 for anesthesia and we saw the first of its shipments just this last month of May.

Moving to Digital Radiography, which is now nearly all Selenium-based Mammography, our Mammography Detectors experienced strong growth on outside U.S. demand and our major customer is awaiting FDA clearance to enable sales here in the U.S. Lastly look into Security Technology, we shipped our first production eXaminer XLB, we received an eXaminer 3DX order for the – in the quarter for 9.7 million for shipments in Q3 and Q4. And finally the TSA accepted the upgraded eXaminer portfolio for the new upcoming certification testing.

I'll pass it off to Mike Levitz, our CFO to go through the financials.

Michael L. Levitz, Vice President and Chief Financial Officer

Thank you, Jim. Good evening, everyone. I'm going to walk you through the financial results for the third quarter ended April 30, 2010, as compared to the same period last year, and compared to the second quarter of this fiscal year.

If you would look at slide six of the online presentation, our revenues, as Jim said, in the third quarter totaled 107.2 million. That was up $13.6 million, or 15% from the same quarter last fiscal year, and up almost $4 million or 4% from last quarter. Product revenues reached $99.8 million, up almost $13 million, or 15% from last year and up 1% from last quarter. The increase primarily reflects growth in our Medical Technology business, reflecting a recovery in hospital spending from the 2009 economic downturn, as well as the positive impact of continued penetration of the new products released in our Specialized Ultrasound business in the latter half of last year.

Our gross was 35% in the quarter, up from 33% in the same quarter last fiscal year, and down from 37% in the second quarter of this year. The increase from last year reflects the favorable impact of cost reductions that we've made, as well as growth in shipment volume in our medical business. The decrease from the second quarter primarily reflects the impact of revenue mix, with a lower percentage of our total sales coming from our higher margin specialty ultrasound products, reflecting normal seasonality, as well as a $1 million unfavorable currency impact on revenues, and a higher percentage of engineering revenues, which generally carry lower margins than our product revenues.

Our operating expenses were $31.8 million in the third quarter. That was an increase of 8% from the same quarter last fiscal year, and a decrease of 4% from last quarter. On an adjusted non-GAAP basis, operating expenses in third quarter were just over $30 million, an increase of 2.2 million or 8% from the same quarter last fiscal year, and a decrease of $600,000 or 2% from the second quarter this fiscal year. The year-over-year increase primarily reflects the impact of variable compensation accruals, which increased on the company's improved financial results.

The minor decrease in expenses from the second quarter of this fiscal year primarily reflects an increase in the level of funded R&D in the third quarter.

While the expenses are – our operating expenses increased in real dollar terms, the operating expenses as a percentage of revenues decreased in the third quarter, as compared to both the same quarter last fiscal year and compared to the second quarter of this year.

Our net income improved to $4.8 million in the third quarter, an increase of 2.5 million, or 109% from the same quarter last fiscal year, and an increase of $1.2 million, or 33% from last quarter, primarily reflecting the improvement in sales volume in our CT and MRI and Specialized Ultrasound segments, as well as cost reductions across our business.

Our diluted earnings per share was $0.38, as Jim said, that was an increase of 111% from the same quarter of last fiscal year, and an increase of 31% from last quarter. Our adjusted non-GAAP diluted earnings per share was $0.49 in third quarter, an increase of 104% from the same quarter last fiscal year, and an increase of 14%, compared to last quarter.

If you would turn to slide six, I'll now walk you through our results by operating segment. Please note that we've updated our presentation this quarter to now reflect operating income, as compared to the pre-tax income metric we reported in prior quarters. While the change in presentation does not change trending, we believe that operating income presents a better measure of the operating effectiveness of our segment.

Our Medical Technology revenues totaled $93.3 million in the third quarter. That was an increase of 13.8 million or 17% from the third quarter of last fiscal year, and an increase of 4.6 million or 5% from the second quarter of this fiscal year. This level of revenues, along with the lower cost structure, enabled our Medical Technology business to generate operating income of $4.5 million in the third quarter, a significant increase as compared to the just over break-even results reported in the third quarter of last fiscal year, and a 13% increase over the second quarter of this fiscal year.

Our largest segment, CT and MRI, which was previously referred to as our Medical Imaging segment, generated revenues of $61.1 million in the third quarter. That was an increase of 22% from the same quarter last fiscal year, primarily reflecting an increase in customer demand as a result of the improving global economy, and the related impact on hospital capital spending. The 2009 economic downturn began to most significantly impact our business this same quarter of last year.

Revenues also increased by 10% from the second quarter of this fiscal year, primarily reflecting continued growth in our sales volume. We are pleased to report operating income in this segment of $2.8 million in the third quarter, a significant improvement as compared to the operating loss of $2 million reported in the third quarter of last fiscal year, and a 40% increase as compared to the second quarter of this fiscal year, reflecting the positive impact of revenue growth and our lower cost structure.

Our Digital Radiography segment had revenues of just over $10 million in the third quarter, a slight decrease of 2% from the same quarter last fiscal year, and a 17% increase from this past quarter. These segment revenues now primarily reflect sales of Selenium-based Mammography Detector plates, which have replaced older-generation, non-mammography detectors that are being phased out. The mammography business continues to achieve strong growth on sales made entirely outside of the United States, as our OEM customers await FDA clearance in the United States.

Our Specialized Ultrasound segment, previously referred to as BK Medical had revenues of $22.1 million in the third quarter. That was a 15% increase from the same quarter last fiscal year, and was a decrease of 11% from the last quarter. The increase year-over-year reflects the introduction of two new products the Flex Focus and the Pro Focus UltraView, which were introduced in the second half of fiscal 2009. We continue to be pleased with the reception of these new products in the marketplace. A decrease from the second quarter of this fiscal year, reflects $1 million of unfavorable foreign currency impact, as well as normal seasonality in the business.

Our Security Technology business reported revenues of $12.2 million in the third quarter that was consistent with the same quarter of last fiscal year, and a decrease of $600,000, or 5% from last quarter. A slight decrease from the second quarter reflects fewer product shipments in the quarter to our OEM customer L-3. We are pleased to ship the first production eXaminer XLB unit in the quarter; our highest throughput explosive detection system and we shipped 13 eXaminer 3DX units. The security business generated operating income of $2.1 million in the third quarter, an increase of 31%, as compared to the same quarter of last fiscal year and an increase of 50% compared to the second quarter of this fiscal year, primarily reflecting higher margin engineering revenues in the quarter.

If you would turn to slide seven. We continue to have a strong balance sheet with a $168.8 million of cash and investments and no debt. We were pleased to continue to report improving operating cash flows, which totaled $13 million in the third quarter that was 38% increase as compared to the same period last fiscal year. We remain committed to driving positive operating cash flows going forward along with our improving operating results.

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

James W. Green, President and Chief Executive Officer

Thank you, Mike. Let's move to slide eight and move onto the summary. We're seeing a strong market adoption of the Flex Focus platform and when we combine that with investment in our sales channel, we're seeing solid growth and improved profitability in Specialized Ultrasound. With growth in the CT and MR segment, our lower cost division is yielding solid improvements in both the gross and operating margins. Security revenues remain stable this quarter and the remainder of the fiscal year looks smooth.

And finally, we remain committed to our FY '12 financial goals of double-digit revenue growth and double-digit operating margin through leveraging our strength and technology and by driving operational efficiencies.

Thank you and we can now open the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Larry Solow with CJS Securities.

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

<A – Michael Levitz>: Hi, Larry.

<Q – Lawrence Solow>: In terms of CT – the CT/MRI segment, Jim, I know it's hard to get your crystal ball out, but you had a nice sequential jump, over 10%, give or take a couple of million, do you think sort of a, high 50s, maybe even 60 million run rate is sort of a good run rate that you're at or do you think you could kind of still go back into the low-to-mid 50s, any quantitative or any just qualitative color on what you're hearing from customers going forward?

<A – James Green>: Well, I guess what I would say as we look to the market, and with the growth in the emerging markets appearing to offset some of the softening in the U.S. and Europe, we're overall – what we're hearing from our customers is, is kind of a mid single-digit kind of growth range in that kind of combined CT and MRI segment.

<Q – Lawrence Solow>: Okay.

<A – James Green>: Yeah.

<Q – Lawrence Solow>: Okay, and this new agreement, I guess that – does that kick – is that material enough to move the needle when it starts to kick in or?

<A – James Green>: Well, it's a development agreement. So, it's – as with most development agreements, it will fund some engineering, it will fund the development effort, but typically you expect to see this kind of products, they'll have roughly a two-year cycle or so before those turn into significant product revenues.

<Q – Lawrence Solow>: Got it. And then in terms of the Specialized Ultrasound segment. Can you maybe give us a little more update on where you stand in your sales force expansion initiatives and, when this segment could start generating some meaningful bottom line contributions?

<A – James Green>: Right, right. Well, as we've said in the past, we're way under-scoped in the Specialized Ultrasound business, even though, it's profitable with those, with it being our best gross margin product, we just don't have that the scale yet for it to generate the bottom line that it needs to. So to answer your question in the U.S., if you look back a year or so, we only had 11 quota-bearing sales reps, and U.S. is the biggest opportunity for that segment. This year we brought that number up about 50% to, I think 16 people, our plan is to take that up to somewhere around 30 within the next 12 to 16 months.

So, it'll take us a little while for that to really grow dramatically, but as you add these reps. They – we typically expect in the six to eight-month timeframe, they're up and selling a quota. So it's a pretty easy math calculation that, that growth. And at the same time, you see that we've – with the introduction of the new anesthesia unit that same sales force can be leveraged very nicely just by adding an additional department in the hospital that they're going to with the product line. So we're expecting good solid growth in that segment, and at the same time we are investing in some of the other segments for instance in Germany, and then as we expect China to be a nice – a nice opportunity, and that's going to be all incremental for us too.

<Q – Lawrence Solow>: Okay, then in terms of the currencies, I know you guys have some give – puts and takes, is most of your impact really in – just on in terms of the Specialized Ultrasound segment or do you know, as the euros come down significantly even probably since your quarter ended, would there be more impact potentially going forward or?

<A – James Green>: Yeah, I think we are looking – we are looking at that. And at this point, certainly the biggest impact we see is on revenues in our Specialized Ultrasound segment and outside the U.S. mainly in Europe. So yeah, that is an area in this last quarter as Mike said, we had about a million dollar currency effect just in that area. So we are watching what the euro is going to do there. The good news is a lot of our real expansion here is in the U.S. and in U.S. dollars.

<Q – Lawrence Solow>: Right.

<A – James Green>: But we are paying attention to FX and we plan to do a better job of giving an overall currency effect on the business going forward.

<Q – Lawrence Solow>: Okay.

<A – James Green>: Mike, do you have anything you want to add to that?

<A – Michael Levitz>: Sure. Hi, Larry.

<Q – Lawrence Solow>: Hi.

<A – Michael Levitz>: Just to clarify, so there's definitely an FX impact on revenues, but this business has somewhat of a natural hedge. And so while there was a million dollar impact in sequential revenues, it was a pretty small impact to the bottom line.

<Q – Lawrence Solow>: Got it.

<A – Michael Levitz>: From currency. We do also have some currency exposure related to our Digital Radiography business, but we do manage that exposure and so that's been fairly insignificant.

<Q – Lawrence Solow>: And mostly OEM business is in dollars or you don't have much exposure there, or they're offsetting or?

<A – Michael Levitz>: Yeah. That's correct. The OEM business is primarily in U.S. dollars.

<Q – Lawrence Solow>: And then just last question, any update on the security side, on the TSA competitive bidding process, and sort of next timelines that we can, milestones we can look for there?

<A – Michael Levitz>: Well, we've been – what we've been trying to do is make sure that we give the TSA what they've asked for. We've now submitted the full product line to the TSA for certification testing for the new certification standards that they've identified. It's difficult to predict exact timing with the TSA as far as when they'll actually start that testing and finalize it and turn that into the next generation sets of orders. What we're counting on is in the meantime that they'll continue to come forward with bridge orders, which will allow us to continue to meet that underlying replacement demand here in the U.S., and continue to rely on sales outside the U.S. Though, we're pushing the TSA to get going with this, all of our equipment is in, we've submitted everything that's required, and we're just in that hurry up and wait mode with the TSA.

<Q – Lawrence Solow>: Okay, great. Thanks again.

<A – Michael Levitz>: Thanks, Larry.

<A – James Green>: Thank you, Larry.

Operator: Thank you. [Operator Instructions] Our next question comes from Josephine Millward with Benchmark Company.

<Q – Josephine Millward>: Good afternoon.

<A – James Green>: Hi, Josephine.

<Q – Josephine Millward>: Hi Mike.

<A – Michael Levitz>: Hi, Josephine.

<Q – Josephine Millward>: Congratulations on a great quarter.

<A – James Green>: Thank you.

<A – Michael Levitz>: Thank you.

<Q – Josephine Millward>: Jim, I was a little surprised we didn't see more margin improvement in the Medical Imaging business. Before the acquisition of Copley and the downturn, I think this segment was doing double-digit operating margin, even at 45 to $50 million a quarter. Can you help me – can you help us understand what's going on? Is it – does Copley have lower margin than CT, and how do we get back to double-digit from where we are right now?

<A – James Green>: Yeah, I'll let Mike answer what the difference is there with this quarter in the mix and its associated drop down, Mike?

<A – Michael Levitz>: Sure, a couple of elements, there's definitely a mix component involved here. Even within the CT business, depending upon what products are sold, there's a mix component, and that did impact us in the quarter. There is also a mix component between product revenues and engineering revenues, and engineering revenues were up as a percentage this quarter, which impacted the overall margin and the operating margin in our gross margin in CT and MRI. I don't have the data in front of me relative to what you're referring to for the historical rates for that business. So I can't comment on that, all I can say is that, we continue to see this business improving and from where we were. We – as I say moved from a significant loss this time last year into a real positive place this quarter. And we expect that trend to continue, as we've taken a lot of cost out of this business.

<Q – Josephine Millward>: Okay. And in terms of your SG&A and R&D, should we expect them to remain at the same run rate going forward?

<A – Michael Levitz>: I expect over time that that percentage operating expenses will remain flat or decline as a percentage of revenues. We expect to be able to leverage the infrastructure that we've put in place to a greater degree as we continue to grow revenues.

<Q – Josephine Millward>: Okay. That's helpful. In terms of Specialized Ultrasound, you have launched a couple of new products and have – can you help us size the market opportunity with, for example, this new anesthesia product. What's the size of the market and what kind of market share do you expect to get within a year or two?

<A – James Green>: Yeah, we're just now entering the market, Josephine. This is Jim again. We see the market size on the anesthesia somewhere around, roughly around $150 million today. That market is growing at a pretty substantial rate these days at better than 10%, we feel like the – like our product is a very strong fit and a good premium type of offering into that segment. We've got our sales reps already calling on the acute center. So leveraging our sales force to provide the product there, we expect to get good adoption there. We just entered the market, and we started getting sales just this last month. So everything is pointing in the right direction there, as far as trying to predict share, that's a pretty difficult thing to do, but at this point, when you're starting from virtually zero everything is upside, and we do expect to really to do well there. So everything looks good, I think as we get to the end of the calendar year, we'll have some real data to show how we are tracking as far as picking up business in this new segment.

<Q – Josephine Millward>: That's great. Can you also talk about the margin for BK Medical, I was also surprised, we didn't see more improvement there, and I think Mike you just said there was a very little FX impact?

<A – Michael Levitz>: No, just to clarify there was a $1 million of FX impact on revenue and a significant portion of that in gross margin. What I was referring is down at the operating margin line you do have an actual hedge there. So there was a solid impact there [inaudible]....

<Q – Josephine Millward>: Okay. But the operating margin for BK Medical actually came down quite a bit...

<A – Michael Levitz>: Yeah.

<Q – Josephine Millward>: Is there a reason why, do we...?

<A – James Green>: Well, if you look at our Ultrasound – Specialized Ultrasound business. That's the one business that has the most seasonality effect to it. Our second and fourth quarters are always the strongest. First and third quarters are always the weakest. So when you swing down and, with seasonality that does have a more profound effect on the operating margin, because you have a lot of fixed costs in a business like that.

So that's where a business like that when you see growth, you see significant improvement in the operating margin. So we have to – we look at this from a year-over-year basis, and as we're growing this business, year-over-year you got a substantial growth in this segment, and we expect that to continue to grow and the bigger it gets, the more you're covering of those fixed costs, when you're looking at sales reps and service and what it takes to run our worldwide direct business. So it's going – this is going to take a little while for us to see substantial improvements in the operating margin line there, but with every bit of growth there you do get a much better drop down and it is an area of focus for the business.

<A – Michael Levitz>: Can I – I would just add to what Jim said, because that's definitely true on the seasonality side, but also remember that we're making investments in this business right now. We've added additional sales reps and as Jim mentioned, there is a certain period of time before they start generating their quota. We also just introduced the new product there, so from a product development spending standpoint that impacted us. So but the definite – as Jim said, the trend we expect to be positive is we better leverage the cost in this business.

<A – James Green>: That's right.

<Q – Josephine Millward>: Very helpful. Thank you. Can you just tell us what's in your backlog for security products?

<A – Michael Levitz>: Sure. In backlog at the end of the quarter, we have 15 eXaminer 3DX systems, and we have five eXaminer XLB systems.

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

<A – Michael Levitz>: Sure.

<A – James Green>: Thanks, Josephine.

Operator: Thank you. [Operator Instructions]

<A – James Green>: Right. Okay, well it sounds like with the good quarter that we reported. We'd like to – are there any more questions there, Moon, because it sounds like we're ready to close out.

Operator: Actually, we did have two join the queue.

<A – James Green>: Okay, sorry.

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

<Q – Lawrence Solow>: A couple quick housekeeping. Tax rate, any guidance on going forward, what you expect that to be?

<A – Michael Levitz>: Sure, Larry, as we've said as I mentioned last quarter, last quarter I mentioned a 30% rate for the year. There is some possibility that we might do a little bit better than that, the Congress is currently considering extending the R&D tax credit. If they do that then we could do a little bit better than that. But that's what we're expecting at this point.

<Q – Lawrence Solow>: Okay. And was there any unusual expenses or benefits or anything in the quarter other than the things you called out in terms of the amortization?

<A – Michael Levitz>: Sure, they were, but they basically offset one and another at the end of the day. So we had about $400,000 or $500,000 impact from some of the unemployment taxes, that was one-time item in the period and, but that was offset by a discrete tax item. So at the end of the day, it ended up bottom line.

<Q – Lawrence Solow>: Right. That was in the tax line, how about just in the other line, I mean you know you had a loss in the other line, was that due to a currency, you had a loss in your – actually those are pre – that was operating income from the other?

<A – Michael Levitz>: Yeah.

<Q – Lawrence Solow>: What's that from?

<A – Michael Levitz>: Yeah. We had a loss in the hotel for about $400,000.

<Q – Lawrence Solow>: Okay.

<A – Michael Levitz>: Surprisingly enough people don't tend to come to New England in the winter time...

<Q – Lawrence Solow>: Okay. Right, right.

<A – Michael Levitz>: ...from a travel standpoint. But no, in all seriousness, that is a normal seasonality in that business...

<Q – Lawrence Solow>: Right.

<A – Michael Levitz>: This is the weakest quarter, and we expect that to improve going forward.

<Q – Lawrence Solow>: So you still think that business is sort of break-even or better on a full year basis?

<A – Michael Levitz>: Right about...

<Q – Lawrence Solow>: It's break-even.

<A – Michael Levitz>: Yeah.

<Q – Lawrence Solow>: And do you happen to have just the D&A number for the quarter?

<A – Michael Levitz>: I'm sorry.

<Q – Lawrence Solow>: Do you happen to have the depreciation and amortization number for the quarter?

<A – Michael Levitz>: Yeah, I think we were at $4.4 million.

<Q – Lawrence Solow>: Okay.

<A – Michael Levitz>: Let me just check that, 4.2 million.

<Q – Lawrence Solow>: 4.2, okay. Great, thank you.

<A – James Green>: Thanks Larry.

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

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

<Q – Josephine Millward>: Hi, Jim. Hi, Mike.

<A – James Green>: Hi Josephine.

<Q – Josephine Millward>: Give us an update on the Digital Mammography business and where the FDA approval stands with Siemens and Toshiba?

<A – James Green>: Sure, sure. Overall, we still see good solid growth on the mammography units as you know that particular business has transitioned from the older technology for Digital Radiography to the new high-end Selenium-based Digital Mammography system. So that mix has now virtually completely shifted to 100% with our new systems. So that is still growing nicely, however, it is limited to just outside the U.S. until our first big customers get the FDA clearance. Our latest information still says that sometime this summer, we expect to see, our customer expects to get clearance. Now we are hearing anecdotally from many – from a number of people we work with, the companies we work with, that the FDA is not exactly doing a wonderful job of getting things through quickly. So there's always a bit of an unknown there that things could be – that things could delay somewhat, but we expect that with a company like Siemens that they'll do a quality job and that they'll – they know how to get product released in the U.S., so that's about where we are with that right now.

<Q – Josephine Millward>: And how would you characterize the expected growth rate in the Digital Mammography market?

<A – James Green>: What?

<Q – Josephine Millward>: And I know you are – your target is somewhat different because your addressable market could double in the coming year, but can you just talk about that?

<A – James Green>: Yeah. We've been studying that and listening to what some of the other players that are in the market are saying. There, if you look at the number of sockets in the U.S., there is still new growth sockets in the U.S. and there's also starting to develop a replacement market in the U.S. So we feel pretty confident that there's going to be – this is going to be a real opportunity for us, because when you combine the power of companies like Siemens, and then Toshiba in Japan and then Philips, I mean, these are powerhouses in these areas, and they should do very well as far as penetrating and getting to the kind of share that you typically see them at in radiology. So we're pretty bullish on this business. And as it's driven by not just new sockets, but replacement development, that says a lot for the opportunity there.

<Q – Josephine Millward>: Okay. And what about your cash? Any – I don't believe you have an authorized buyback in place right now, or can you talk about the latest thinking on your plans for the cash?

<A – Michael Levitz>: Sure. This is Mike. So we do not a have a buyback in place at this time. We're very cognizant of the cash balance that we have. It's nice when times are difficult to have that cash balance. But now that things are improving, we're definitely looking from a strategic standpoint at how best to put that cash to use in terms of driving growth. We have mentioned in the past that if we were to do a strategic opportunity, we'd probably target it towards the Specialized Ultrasound business as we like the gross margins that we have in that business. But if we were to do that, we'd probably looking more at bolt-ons from an acquisition standpoint. We actively discuss it as a management team and with the Board in terms of how to best put that capital to use for the benefit of our shareholders.

<A – James Green>: Yeah, and we've in the past, we've had share buyback, we continue to have these kind of discussions with the Board as far as potentially using some of the cash in terms of a share buyback when conditions make sense.

<Q – Josephine Millward>: Great, just one final question. You talked about, I know timing is very hard to predict with the government, but do you – when do you think your security technologies could be re-certified by TSA and when do you think TSA would move forward with the explosive detection upgrade at the airports?

<A – James Green>: Yeah, that's such a hard question, and I know that you get a lot of good feedback directly from the TSA. But our discussions with them, what we're doing is we're pushing for them to get started on the testing now. We're ready, our equipment's ready, we've turned everything in, we've done everything we've been asked to do to be prepared to get these new certifications in place. But last we had heard from the TSA, going back a few months, is that it looked like it was somewhere around the end of the calendar year, maybe very early in the next calendar year. But there's just, as you know, it's very difficult for us to predict the timing with that. So we're – again, we're in a bit of a hurry up and wait mode, doing everything we can do to be ready and then pushing them to get going on it.

<Q – Josephine Millward>: And in the meantime, do you feel pretty comfortable that you'll have the steady flow of bridge orders from L-3 until the upgrade?

<A – James Green>: Well, we think so. But as we've seen in the past, I mean, things could – things can get a little lumpy at times. But in general we feel that there is a fairly reasonable sustained underlying demand that has to be met, and as you know we're waiting very patiently to get the new certifications in place and also for the European changes and the new laws to take effect in our FY '12 that's – and calendar year '12, the move to certify checked baggage in Europe.

That, along with replacement market in the U.S. and the new certification and the new growth in airports here, point to a very solid outlook as we look to our FY '12. But in the meantime, we're reasonably confident that we'll see just a reasonable sustained kind of number of shipments and revenues until that really starts to kick in.

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

<A – James Green>: Thank you, Josephine.

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

James W. Green, President and Chief Executive Officer

Thank you, Moon. Thank you everyone for your interest in Analogic. We invite you to call in again in September when the company will review its fourth quarter fiscal 2010 results. Thank you and have a good evening.

Operator: [Operator Instructions] Thank you for joining Analogic Corporation Third Quarter Investor Conference Call. You may now disconnect.