MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the Analogic Corporation's Second Quarter Conference Call for Fiscal 2011. 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 any time at investor.analogic.com. That presentation will remain available until April 11, 2011.

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

Mark Namaroff, Director, Strategic Marketing and Investor Relations

Thanks, Dusty. Good afternoon, everyone. And welcome to Analogic's second quarter conference call for fiscal 2011. 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 Michael Levitz to review the second 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'd like to turn the call over to Jim, our President and CEO.

James W. Green, President and Chief Executive Officer

Thank you, Mark. Okay, let's start by going to Slide 4 of the presentation, and I'll start with the financial highlights for the quarter. Revenue came in strong at a $117 million in spite of a slow quarter in security shipments. We were up 15% from the same quarter last year and up 13% from our last sequential quarter. As previously announced, the previously announced ultrasound transducer product line acquisition did contribute about $2.1 million, or a little under 2 percentage points to our overall growth.

Gross margin came in at 35%, which was negatively impacted by product mix mainly the lower security shipments and manufacturing consolidation costs. In spite of investments in this quarter, operating margin on a GAAP basis was 5%, consistent with the same quarter last year and up from 2% our last sequential quarter. Non-GAAP operating margin remained at 8%, the same as both last year and this last sequential quarter. On the diluted earnings per share, we were at $0.42, up $0.13 from last year and up $0.22 from our last sequential quarter. And on a non-GAAP basis, our earnings per share came in at $0.53, up $0.10 from last year and up $0.07 from our last sequential quarter.

We move on to slide number 5. We'll take a look at the business highlights in the quarter. Our Medical Imaging segment came in very nice with strong double-digit revenue growth [audio gap] the entire product line. CT and Mammography led the way on strong market demand, coupled with new share growth on a new high end CT detection system. Mammography detectors continue to see significantly higher demand and we're excited to see the first the Siemens mammography units selling in the United States. We saw a strong growth in demand on our ultrasound probes and transducers and again, about $2.1 million was incremental from the ultrasound transducer product line acquisition that we have previously announced.

Moving to our Ultrasound segment, expansion of our U.S. sales force continues to pay off. We saw a strong double-digit revenue growth in the United States. We did see some reduced demand in Europe and certain distributor markets and we had a negative year-over-year currency impact. The Flex Focus family is seeing solid adoption in both Surgery and Urology and we continue to invest in building our brand in the need for the adjacent Anesthesia market.

We move to slide 6, take a look at the security business, we shipped unit 1,000 of our explosive detection system to our OEM customer. This quarter we did experience a lumpy shipment pattern. We're happy to see that the high-speed XLB explosive detection system received the European ECAC certification to open up for sales in Europe.

And as for other business highlights, the complete consolidation of Canton, Massachusetts manufacturing into our Peabody, Massachusetts facility, we're progressing on consolidating the Denmark manufacturing into our lower cost facilities, and we repurchased about 222,000 shares of our common stock at a cost of around $11.1 million.

Now I'll pass on the mic to Mike Levitz, our CFO, who will discuss the financials in a little bit more detail. Thank you, Mike.

Michael L. Levitz, Vice President, Chief Financial Officer and Treasurer

Thank you, Jim. Good evening, everyone. I'm going to describe the financial results for the second quarter, which ended January 31, as compared to the same period last year as well as compared to the first quarter of this year.

This information begins on slide 8 of our online presentation. As Jim mentioned, we're very pleased with our top line performance in the second quarter. Our revenue totaled just over a $117 million up 15% from the second quarter of last year. Our strong revenue growth this quarter was driven largely by healthy demand in our key OEM medical product line, CT, MRI, and mammography. In comparison with last quarter, revenue increased by 13%. In addition to the strengthening of our medical OEM business this sequential revenue growth reflects a 17% increase in revenues from our Ultrasound business both from favorably seasonality, as well as strong growth of sales in the United States.

The growth in the U.S. is the result of our investment in expanding our direct sales force, as well as continued penetration in our Flex Focus product line in existing and adjacent markets. Our gross margin was 35% in the second quarter, so it was down two points from a year ago and down three points from last quarter. The primary drivers of this decrease were product mix with significant growth in our Medical Imaging business, which generally has lower gross margins than our other businesses, cost associated with our previously announced manufacturing consolidation efforts to improve our manufacturing cost structure, and a charge related to our transducer product line acquisition in the second quarter.

As Jim mentioned, we completed the consolidation of our Canton, Massachusetts manufacturing into our Peabody headquarters facility during the second quarter, and we're making good progress in consolidating our Denmark manufacturing into our lower cost facility. We expect to start seeing benefits from this consolidation once it's completed towards the end of the fiscal year. Our operating margin was 5% in the second quarter, which is consistent with the same quarter of last year and up from the 2% we reported last quarter. Our operating margin this quarter reflects both the cost of consolidating manufacturing, as well as our investment and expansion of our direct sales force to drive overall growth. While these investments negatively impacted our margin this period. They are consistent with our drive towards our goal of double-digit operating margins for fiscal 2012. On a non-GAAP basis, operating margin in the second quarter was 8%, which is also consistent with the operating margin in the same quarter last year and with last quarter. Our increased investment in research and development and expansion of our direct sales channel were offset by lower G&A spending as a percentage of revenues.

Now if you would turn to slide 9 and our P&L for the period. The financial performance for the second quarter we just discussed resulted in net income from continuing operations of $5.3 million, or $0.42 per diluted share. This is up from net income of $3.6 million and $0.29 per diluted share in the second quarter of last year, and up from $2.6 million, or $0.20 per diluted share in the first quarter of this year.

Included in operating expenses this quarter, specifically within G&A expenses was a $1 million gain, net of tax from acquisition accounting for our acquisition of the transducer product line. This gain specifically resulted from the difference between the purchase price, and the valuation of the acquired assets. Offsetting this gain was a catch-up accrual on the period for performance-based stock compensation based upon our improving profitability. Such accruals are based upon historical performance as an indicator of future performance. As we continue to deliver improved profitability, in the near term, we expect we may see additional catch up accruals for our stock-based compensation.

Please note that net income this quarter also included a positive impact of Congress' approval of the R&D tax credit, which helped reduce our effective tax rate in the quarter to 15%. Our non-GAAP diluted earnings per share was $0.53 in the second quarter, it was up from $0.43 per share in the second quarter of last year and up from $0.46 last quarter. The improved earnings per share reflected both the growth in operating income in the quarter, as well as the favorable tax benefit from the R&D tax credit. Over the next few slides, I will walk through the trends in each of our three operating segments.

First on slide 10, you will see the positive performance trend in Medical Imaging, our largest segment. Segment revenue in the second quarter reached $82 million up over – almost up 29% from the second quarter of last year, and 15% from last quarter. We were pleased to see increased demand across our OEM product lines with notable growth in CT subsystems, mammography detectors, as well as OEM ultrasound probes. Included in our results was $2.1 million of revenue from our previously announced acquisition of an OEM ultrasound transducer product line, which closed during the second quarter. Our Medical Imaging operating margins improved to 7% in the second quarter, as compared to 4% in the same quarter last year, and 5% in Q1 of this year, reflecting a significant revenue growth in the period.

Turning to slide 11 and our Ultrasound segment, revenues in our Ultrasound segment in the second quarter totaled $25 million, consistent with revenue in the same quarter last year, and $4 million higher than the first quarter of this year. The majority of sales in this business are outside the United States, and therefore, the revenues are impacted by changes in currency rates, which had a $1.3 million unfavorable year-over-year impact on revenues in the second quarter. In comparison to last quarter, the currency impact was minimal.

We were pleased to see over 20% growth in United States revenues, but this was offset by weaker sales in Europe and certain distributor markets in the quarter. The Flex Focus platform continues to see strong customer acceptance in our core markets of urology and surgery.

Our Ultrasound business broke even in operating margin this quarter, down from 6% operating margin in the second quarter of last year, primarily reflecting costs associated with consolidating our Denmark manufacturing into lower cost facilities, as well as our continued investment and expansion of our sales force. Operating margins improved from last quarter on higher sales volume, and the restructuring costs we recorded last quarter related to our manufacturing consolidation efforts.

Turning to slide 12 on our Security business. As we stated in the past, this chart demonstrates the lumpy ordering patterns of the TSA and our OEM customer. Our revenue in the second quarter of this year decreased from the same quarter last year by $2.4 million on lower system shipment. The impact of the lower system shipments was partially offset by higher engineering revenue in the period. Operating margin was 5% in the second quarter of this year, down from 11% in the second quarter of last year due to lower system sales. Based on purchase orders received to-date, we've seen an uptick in orders and expect higher shipments towards the end of this fiscal year.

Turning to slide 13, we ended the quarter with just under $163 million in cash and investments. We were pleased to see improving cash from operations with over $7 million in operating cash flows this quarter. And we made investments of $11.1 million in the quarter in purchases of common stock under our stock repurchase program, as well as increased capital spending largely associated with construction of our new facility in Shanghai. We continue to carry no debt.

I'll now turn the call back to Jim.

James W. Green, President and Chief Executive Officer

Thank you, Mike. Moving onto slide 15, a quick look at our outlook and our summary, our Medical Imaging continues to look strong throughout the year across the product line. Ultrasound growth continues to be powered by the U.S. sales force expansion, coupled with the adoption of our innovative Flex Focus family of scanners into our urology and surgery markets plus some of the adjacency opportunities that we see developing. Security looks better for the second half on stronger backlog as we expect increased shipments towards the end of the fiscal year. Operation should see completion of the Denmark manufacturing consolidation.

Overall we expect fiscal '11 annual revenues to see higher than the mid-single-digit revenue growth we had previously mentioned in the past. In spite of one-time charges in the year, we still expect to see some operating margin improvement over last year.

And finally, we remain optimistic in meeting our FY '12 10% operating margin goals.

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

QUESTION AND ANSWER SECTION

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

<Q – Josephine Millward>: Good afternoon.

<A – James W. Green>: Hi, Josephine.

<A – Michael L. Levitz>: Hi, Josephine.

<Q – Josephine Millward>: Great quarter. Jim, can you give us a sense of what contribution was from digital mammography. You know was it $10 million, or $20 million and can you talk about what kind of impact you're seeing from Siemens and now that they have FDA approval in the U.S.?

<A – James W. Green>: All right, Mike's looking up some of the detail, I can tell you that Siemens has really just now in fact, it's just this week that they announced their first sale in to the United States. So, they are just now starting to ship here to the U.S. however, we expect that they've done some purchasing ahead to build for the demand that they expect here in the U.S. So, certainly, we're really excited about the U.S. starting to add to our growth pattern in the mammography side and Mike do you have a feel on the mammography numbers here.

<A – Michael L. Levitz>: Sure, sure we had just under $9 million in mammography – I'm sorry, I was looking at last quarter. We had just over $11 million in mammography this quarter.

<Q – Josephine Millward>: Great. Can you also give us a revenue breakdown between Europe and U.S. for ultrasound? Mike, you mentioned that it's mostly Europe, I know you've been beefing up your sales channels in the U.S., if you can give us an update on how many sales you've added, how many sales people you have direct sales for people you have in the U.S. and give us a sense of the mix?

<A – Michael L. Levitz>: I can tell you in the U.S., Josephine that we're in the high 30 percentile of our total worldwide ultrasound revenues. So, we're approaching, I'd say we're approaching 40% of the ultrasound revenues and if you look at the, if you look at the sales coverage penetration, you go back a year and a half or so I think we had about 11 reps. I think now we're somewhere around 21 to 22 today still growing on that and I expect us to get to somewhere around 30 or a little above 30 for the U.S.

<Q – Josephine Millward>: Okay. So, your exposure to the U.S. is if I understood you correctly, it's between 30% to 40% of your total ultrasound business. So, I was a little surprised by the softness in ultrasound business because I thought the weakness is primarily in Europe?

<A – Michael L. Levitz>: Yeah, you know, actually what we saw in the quarter was some very, very strong growth in the United States well over 20% on a new quarter-to-quarter basis, year-over-year. The – Europe though has been softening, we've seen that not just in our business, but Europe has been somewhat slowed. And then the other place where we're just starting to see and we've been making investments over the last year, it's starting to sell in Asia. So, if you look at our distributor setup in Asia, that was if anything that drag us down on the year-over-year basis, the investments in Asia last year are just now starting to result in actual real pull through sales that go to end users. So, the investment in Asia, again, doesn't really start, we don't really start to expect to see that to start kicking in incrementally as we get probably another year from now.

<Q – Josephine Millward>: Okay, that's helpful. In terms of Security, can you tell us how many Security systems you shipped during the quarter, and what's in the backlog?

<A – Michael L. Levitz>: Sure. We shipped 10 Security systems in the quarter. And in terms of our backlog, we have 36 systems in backlog, currently 22 3DX, 12 SX, and 2 XLB.

<Q – Josephine Millward>: That's great. Thank you.

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

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

<Q – Larry Solow>: Good afternoon. Pretty nice sequential growth on the CT MRI side, is there anything, you know more color that maybe you know more growth in the U.S., I don't know if you could really break that out, because obviously it's your – the end customers are multinational, but anything, any color you could add to that, is there, was there some pent-up demand, was there anything unusual to that number?

<A – James W. Green>: From what we see with our customers, the big growth driver worldwide has really been, and continues to be Asia and China, the U.S. does seem to be recovering some; and then Europe has been somewhat flat. So, the big growth driver, again, being Asia, U.S. recovering and that between those two, that's really the primary driver.

<Q – Larry Solow>: Okay.

<A – James W. Green>: Again we also, I'd also suggested that we see some share growth in that we've introduced some new products, especially one of our newer higher performance units that's just now starting to go into production so it's more than just market growth we're seeing some share growth that goes with it.

<Q – Larry Solow>: Got you, and then on the ultrasound business that you sort of cited some of the weakness in Europe, is that anything behind that, does that worry you that that seems to have never really heard that there was – and I know Europe itself has not been great in terms of just sales in general cost in the healthcare spectrum, but any – was there noticeable more weakness in Europe this quarter and any thoughts on that maybe a temporary thing or?

<A – James W. Green>: Well, the feedback we're getting is that the first half was slow, a little slower in a few key areas, a few key countries. The expectation is the second half will start to pick back up, but we don't see if you're questioning things like the financial situation in Europe; that doesn't seemed to be affecting us and we don't really sell much into Spain and some of the southern countries.

<Q – Larry Solow>: Okay. That was sort of my next question, you read my mind, and then the Denmark manufacturing, the consolidation; was the cost this quarter higher sequentially versus last quarter or that's been an ongoing impact to gross margin?

<A – Michael L. Levitz>: Larry, this is Mike. We began that consolidation this quarter, so there were no costs associated.

<Q – Larry Solow>: Got it.

<A – Michael L. Levitz>: That last quarter.

<Q – Larry Solow>: Okay.

<A – Michael L. Levitz>: So those costs started this quarter, and they'll continue next quarter in Q3 as well and maybe a little bit into Q4. We expect to be able to wrap up that consolidation as we get towards the latter part of the fiscal year.

<Q – Larry Solow>: Anyway for the dollar amount of what that post costs were, or for the total two and half quarters will be or?

<A – Michael L. Levitz>: You know I think it's reasonable to assume it will be under $1 million for in total, but it was a few hundred thousand this quarter.

<Q – Larry Solow>: Got you. Okay, and then just lastly, just, I noticed a pretty nice ramp in R&D, anything in there that you could cite as to why, or is that just more to on calling along the lines with the increased engineering revenues, and what-not?

<A – James W. Green>: Well, it's a bit of a few things. Certainly, we've been investing to introduce the new product lines in ultrasound. We introduced a new high end CT system. And I guess beyond that, we tend not to talk too much about some of the newer things coming out until we're ready to announce.

<Q – Larry Solow>: Would you expect that number to sort of remain in the 14 to 15 number, where it's been the last couple of quarters or I look back last year it's sort of averaged around 12, 12.5 a quarter?

<A – James W. Green>: Yeah, I would expect that, we'll start to see that coming down some. We're not going to – I mean, we've been ramping up here for a lot of, some of these new things that are introducing. So, I think right now, it's running a little heavy.

<Q – Larry Solow>: And then just last question on the Security side, I noticed you guys kind of released that you get passed the ECAC Standard for the XLB high speed. Do you have to meet standards for your other systems as well, or do those develop against sort of same standardized testing, I guess it is?

<A – James W. Green>: Yeah, there's really two main types of tests and in Europe it's mainly ECAC. There's a few other bodies that do the certification for Europe. But then for the U.S. is where you get into the [inaudible] testing and that's also, that's in work right now for all of our main systems.

<Q – Larry Solow>: Okay. And then just on that, any update on when this competitive whole bidding process, and the certifications and re-certifications, is it still sort of something that's probably going to take calendar '11 to settle out and maybe we'll start seeing – you'll get bridge orders until early '12?

<A – James W. Green>: Well, certainly we expect bridge orders in the meantime, but we believe that TSA is still on track to finish up the testing as we get into the mid to late summer with, and then be in a position to see the orders for the developing recapitalization in the U.S. as we get to later in the calendar year. So, that, I think what you said is about right.

<Q – Larry Solow>: So your fiscal, maybe you're at the beginning of – or maybe at the middle your fiscal '12 or the early part of your fiscal '12?

<A – James W. Green>: Right. We would expect to start to see some orders early in fiscal '12, but then with that you start to see shipments as you get more to the middle of fiscal '12.

<Q – Larry Solow>: Got you. Okay, great, thanks, again.

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

Operator: Thank you. [Operator Instructions] And our next question comes from Dalton Chandler with Needham & Company.

<Q – Dalton Chandler>: Good afternoon.

<A – James W. Green>: Hi, Dalton.

<Q – Dalton Chandler>: Hi, you mentioned there was an ultrasound charge that negatively impacted your gross margin. Could you quantify that, and explain what it was?

<A – Michael L. Levitz>: Sure, this is Mike. It's a normal step-up when you have fair value in the inventory, and when that gets sold through cost to goods sold. And that was just under $400,000.

<Q – Dalton Chandler>: Okay, and the $2.1 million in revenue from the acquisition; if you had owned that for the full quarter, what would that have been?

<A – Michael L. Levitz>: Dalton, we made the acquisition very early in the quarter, so that's a fair proxy for a quarter's worth of revenue.

<Q – Dalton Chandler>: Okay, and just a last question. You talked about the explosive detection orders coming back maybe late in the year. Historically, that's averaged around 15 units a quarter. Is your expectation you'll go back to that, or could you maybe exceed that because of some catch up due to the lower orders in the interim?

<A – Michael L. Levitz>: Well, as I say, I expect that it's going to – that we're going to see those shipments later on in the fiscal year. So, I don't see us getting to that in Q3. I think you know later on in the quarter or later on in the year is more reasonable. You know, and so if you look at the backlog that we have now you know – we now have more of a mix than we used to have. In the past, it was all the medium speed and now we've got some other products in there. So, I don't know if you can just kind of assume a 15 unit quarter, and I don't think that's where we're seeing the orders coming in; it's a little bit more lumpy than that truthfully as you've seen in our results. So, I think next quarter is probably not going to be that different than this one, but I think as you get later in the year then you'll see more of a ramp-up.

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

<A – Michael L. Levitz>: Thanks, Dalton.

Operator: All right, thanks, Dalton. Our next question comes from Jiwon Lee with Sidoti & Company.

<Q – Jiwon Lee>: Thank you, and good afternoon.

<A – James W. Green>: Good afternoon.

<Q – Jiwon Lee>: I wonder whether you could comment on how China is performing from medical imaging in comparison to the January quarter so far in the new quarter?

<A – James W. Green>: Well, just overall, we see the same reports that everybody else has that that's the primary driver. You know our customers will shift to the big OEM companies. They don't necessarily tell us specifically where the product, where the end user is for that particular product. But all data seems to point to China being one of the big drivers as far as growth. You know the U.S. is coming back and back to a growth vector, but certainly China seems to be the biggest driver.

<Q – Jiwon Lee>: So on your end, is there any reason so far into this quarter to worry about a slowdown, China?

<A – James W. Green>: We have no feeling of seeing any of that at all. You know the government seems to be continuing to recommit on getting the higher generation of product and better quality product in terms of 16-site CT, 64, 1.5T magnets and such really spread throughout the government level county hospitals where in the past it was mainly limited to the very high end, large, more research oriented centers. So, the government's committing to the kind of purchasing, and they're still are – and they're following through they've just recently recommitted for an additional five more years of significant investment in this kind of technology for the medical side.

<Q – Jiwon Lee>: Okay good, and then for the fiscal '11, could you update us on the CapEx requirement, and how much the new Chinese plant buildout would cost, and where do we stand on that new plant, please?

<A – James W. Green>: Mike, do you want to comment.

<A – Michael L. Levitz>: Yeah, it's probably going to take us about another year to complete the buildout there and, I think in total I think you know, we're making good progress in terms of the production. I think for the fiscal year, I think it's reasonable to expect for few million dollars. I have to look at the exact timing as to when those payments will happen, but overall we, we expect that we're probably about a quarter of the way there, give or take.

<Q – Jiwon Lee>: Well, Mike, and then fiscal 2011 CapEx requirements?

<A – Michael L. Levitz>: As I said, I don't haven't find the exact timing of when those payments will come in.

<Q – Jiwon Lee>: Okay.

<A – Michael L. Levitz>: But we're about like I said, about a quarter of the way there.

<Q – Jiwon Lee>: Okay, okay thanks. And lastly, remind us how the revenue breaks down between U.S., Europe and Asia, blending everything together?

<A – James W. Green>: Yeah, that's really hard for us to do, and a lot of our OEM customers don't specifically tell us how they split. On our ultra sound side, where we sell direct, we're approaching up to 40% of the revenue there, but on the rest of – in terms of OEM, again, it's very hard to say what those splits are.

<Q – Jiwon Lee>: Okay.

<A – Michael L. Levitz>: Jiwon, this is Mike, I'd just like to clarify my last statement. So, when I say we are quarter of the way there on our China spend, I don't mean that we are a quarter of the way to this fiscal year's spending, I'm saying to the overall spending on China.

<Q – Jiwon Lee>: I understood. Thank you.

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

James W. Green, President and Chief Executive Officer

Okay. Well, thank you for your interest in Analogic. We invite you to call again in June when the company will review our third quarter fiscal 2011 results. Thank you, and good evening.

Operator: For listeners who may have come in late, this call has been recorded. You can access telephone replay by dialing 1-877-919-4059 or for international callers, 1-334-323-7226 and entering conference ID 402-153-43. The telephone replay will be available at that number beginning two hours from now and running through midnight Eastern Time, Monday April 11, 2011. 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 Monday April 11, 2011.

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