

ANALOGIC CORP  
Form 10-Q  
December 12, 2005

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended October 31, 2005  
or**

**○ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from        to**

**Commission file number 0-6715  
Analogic Corporation  
(Exact name of registrant as specified in its charter)**

**Massachusetts**  
*(State or other jurisdiction  
of incorporation or organization)*

**04-2454372**  
*(I.R.S. Employer  
Identification No.)*

**8 Centennial Drive,  
Peabody, Massachusetts**  
*(Address of principal executive offices)*

**01960**  
*(Zip Code)*

**(978) 977-3000**  
*(Registrant's telephone number, including area code)*

*(Former name, former address and former fiscal year, if changed since last report.)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  No

The number of shares of Common Stock outstanding at November 30, 2005 was 13,828,390.

**ANALOGIC CORPORATION  
TABLE OF CONTENTS**

		<b>Page No.</b>
<b><u>Part I. Financial Information</u></b>		
<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Unaudited Consolidated Balance Sheets as of October 31, 2005 and July 31, 2005</u>	3
	<u>Unaudited Consolidated Statements of Operations for the Three Months Ended October 31, 2005 and 2004</u>	4
	<u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended October 31, 2005 and 2004</u>	5
	<u>Notes to Unaudited Consolidated Financial Statements</u>	6-18
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19-29
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29-30
<u>Item 4.</u>	<u>Controls and Procedures</u>	30-32
<b><u>Part II. Other Information</u></b>		
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
<u>Item 6.</u>	<u>Exhibits</u>	32
	<u>Signatures</u>	33
	<u>Exhibit Index</u>	34
	<u>Ex-31.1 Section 302 Certification of CEO</u>	
	<u>Ex-31.2 Section 302 Certification of CFO</u>	
	<u>Ex-32.1 Section 906 Certification of CEO</u>	
	<u>Ex-32.2 Section 906 Certification of CFO</u>	

**Table of Contents****Part I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**ANALOGIC CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(In thousands, except per share data)

	October 31, 2005	July 31, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 207,189	\$ 208,116
Marketable securities, at fair value	10,921	12,338
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,164 at October 31, 2005, and \$1,973 at July 31, 2005	45,849	50,978
Inventories	68,509	63,604
Costs related to deferred revenue	918	1,300
Refundable and deferred income taxes	12,895	11,657
Other current assets	6,964	6,729
Current assets of discontinued operations (Note 2)	41,364	41,939
<b>Total current assets</b>	<b>394,609</b>	<b>396,661</b>
Property, plant and equipment, net	79,191	79,442
Investments in and advances to affiliated companies	413	983
Capitalized software, net	8,347	8,463
Intangible assets, net	3,293	3,688
Other assets	5,310	5,579
Deferred income taxes	2,851	1,889
<b>Total Assets</b>	<b>\$ 494,014</b>	<b>\$ 496,705</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 26,596	\$ 20,833
Accrued liabilities	18,352	19,620
Deferred revenue	7,464	6,114
Advance payments	1,313	8,273
Accrued income taxes	8,313	11,167
Current liabilities of discontinued operations (Note 2)	29,795	30,627
<b>Total current liabilities</b>	<b>91,833</b>	<b>96,634</b>
Long-term liabilities:		
Deferred income taxes	1,366	914

Total long-term liabilities	1,366	914
Commitments and guarantees (Note 14)		
Stockholders' equity:		
Common stock, \$.05 par value	715	715
Capital in excess of par value	48,736	47,057
Retained earnings	348,735	348,499
Accumulated other comprehensive income	2,629	2,886
Total stockholders' equity	400,815	399,157
Total Liabilities and Stockholders' Equity	\$ 494,014	\$ 496,705

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Table of Contents**

**ANALOGIC CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
**(In thousands, except per share data)**

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Net revenue:		
Product	\$ 79,721	\$ 67,125
Engineering	3,812	5,240
Other	2,877	2,765
<b>Total net revenue</b>	<b>86,410</b>	<b>75,130</b>
Cost of sales:		
Product	49,002	41,848
Engineering	5,733	4,062
Other	1,386	1,438
<b>Total cost of sales</b>	<b>56,121</b>	<b>47,348</b>
<b>Gross margin</b>	<b>30,289</b>	<b>27,782</b>
Operating expenses:		
Research and product development	13,027	11,674
Selling and marketing	7,354	6,719
General and administrative	8,664	9,215
Restructuring and asset impairment charges	1,025	
	<b>30,070</b>	<b>27,608</b>
<b>Income from operations</b>	<b>219</b>	<b>174</b>
Other (income) expense:		
Interest income	(2,033)	(864)
Interest expense		2
Equity (gain) loss in unconsolidated affiliates	570	(127)
Other	157	(608)
	<b>(1,306)</b>	<b>(1,597)</b>
<b>Income from continuing operations before income taxes and cumulative effect of change in accounting principle</b>	<b>1,525</b>	<b>1,771</b>
<b>Provision for income taxes</b>	<b>462</b>	<b>293</b>
	<b>1,063</b>	<b>1,478</b>

Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle			
Income (loss) from discontinued operations (net of income taxes (benefit) of \$126 in 2005, and (\$274) in 2004.)		159	(1,313)
Cumulative effect of change in accounting principle (net of income tax of \$61 in 2005.)		120	
Net income	\$	1,342	\$ 165
Basic earnings (loss) per share:			
Income from continuing operations	\$	0.08	\$ 0.11
Income (loss) from discontinued operations, net of tax		0.01	(0.10)
Cumulative effect of change in accounting principle, net of tax		0.01	
Net Income	\$	0.10	\$ 0.01
Diluted earnings (loss) per share:			
Income from continuing operations	\$	0.08	\$ 0.11
Income (loss) from discontinued operations, net of tax		0.01	(0.10)
Cumulative effect of change in accounting principle, net of tax		0.01	
Net Income	\$	0.10	\$ 0.01
Weighted average shares outstanding:			
Basic		13,631	13,521
Diluted		13,734	13,546

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Table of Contents**

**ANALOGIC CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(In thousands)**

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 1,342	\$ 165
Income (loss) from discontinued operations	159	(1,313)
Income from continuing operations and cumulative effect of change in accounting principle	1,183	1,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	3,214	244
Depreciation and amortization	3,948	4,203
Cumulative effect of change in accounting principle	(120)	
Allowance for doubtful accounts	30	49
(Gain) loss on sale of property, plant, and equipment	5	(1)
Equity (gain) loss in unconsolidated affiliates	570	(127)
Equity loss in unconsolidated affiliate classified as research and product development expense		759
Restructuring and asset impairment charges	2,204	
Non-cash share-based compensation expense	954	526
Excess tax benefit from share-based compensation	(17)	
Net changes in operating assets and liabilities (Note 11)	(10,271)	12,652
<b>NET CASH PROVIDED BY CONTINUING OPERATIONS</b>	<b>1,700</b>	<b>19,783</b>
<b>NET CASH PROVIDED BY DISCONTINUED OPERATIONS</b>	<b>385</b>	<b>4,595</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>2,085</b>	<b>24,378</b>
<b>INVESTING ACTIVITIES:</b>		
Investments in and advances to affiliated companies	(216)	(607)
Additions to property, plant and equipment	(3,168)	(3,149)
Capitalized software	(250)	(1,578)
Proceeds from sale of property, plant and equipment	71	(1)
Maturities of marketable securities	1,360	5,345
<b>NET CASH (USED FOR) PROVIDED BY CONTINUING OPERATIONS</b>	<b>(2,203)</b>	<b>10</b>
<b>NET CASH USED FOR DISCONTINUED OPERATIONS</b>	<b>(478)</b>	<b>(653)</b>
<b>NET CASH USED FOR INVESTING ACTIVITIES</b>	<b>(2,681)</b>	<b>(643)</b>
<b>FINANCING ACTIVITIES:</b>		



Edgar Filing: ANALOGIC CORP - Form 10-Q

Issuance of stock pursuant to exercise of stock options and employee stock purchase plan	798	228
Excess tax benefit from share-based compensation	17	
Dividends paid to shareholders	(1,106)	
<b>NET CASH (USED FOR) PROVIDED BY CONTINUING OPERATIONS</b>	<b>(291)</b>	<b>228</b>
<b>NET CASH USED FOR DISCONTINUED OPERATIONS</b>		<b>(743)</b>
<b>NET CASH USED FOR FINANCING ACTIVITIES</b>	<b>(291)</b>	<b>(515)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH OF CONTINUING OPERATIONS</b>	<b>(64)</b>	<b>(700)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH OF DISCONTINUED OPERATIONS</b>	<b>24</b>	<b>98</b>
	<b>(40)</b>	<b>(602)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(927)</b>	<b>22,618</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>208,116</b>	<b>149,549</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 207,189</b>	<b>\$ 172,167</b>
Cash paid during the period for:		
Income taxes, net	\$ 6,450	\$ 886
Interest	4	16

The accompanying notes are an integral part of these unaudited consolidated financial statements.

**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**  
(Dollars in thousands, except share and per share data)

**1. Basis of presentation:**

The unaudited consolidated financial statements of Analogic Corporation ( the Company ) presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting solely of normal recurring adjustments) necessary for a fair statement of the results for all interim periods presented. The results of operations for the three months ended October 31, 2005, are not necessarily indicative of the results to be expected for the fiscal year ending July 31, 2006, or any other interim period. These statements should be read in conjunction with the consolidated financial statements and notes thereto for the fiscal year ended July 31, 2005, included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on October 14, 2005. The consolidated balance sheet as of July 31, 2005, contains data derived from audited financial statements.

Certain financial statement items have been reclassified to conform to the current period presentation.

**2. Discontinued operations:**

Prior to the end of the quarter, the Company's board of directors approved an agreement to sell its wholly owned subsidiary Camtronics Medical Systems, Ltd. ( Camtronics ) for \$40,000 in cash. The sale was completed on November 1, 2005. Previously, Camtronics had been reported as a separate segment. The Company sold its Camtronics operating segment to better focus on its other core lines of business. This business has been reported as a discontinued operation in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and all periods presented have been restated accordingly to reflect these operations as discontinued. As part of the terms of the definitive agreement, the Company retained all of the cash and inter-company balances of Camtronics as of the closing date.

Revenues for Camtronics for the three months ended October 31, 2005 and 2004 were \$11,495 and \$8,961, respectively. The results of discontinued operations for the three months ending October 31, 2005 and 2004 for Camtronics were a net income of \$159 and a net loss of \$1,313, respectively. The Company expects to recover all of its net assets sold and expects to record a gain on the transaction effective upon consummation on November 1, 2005.

The following represents a detail of the current assets and liabilities of discontinued operations:

	October 31, 2005	July 31, 2005
Current assets of discontinued operations:		
Accounts receivable, net	\$ 5,723	\$ 5,635
Inventories	6,036	6,422
Costs related to deferred revenue	10,912	11,771
Deferred income taxes	4,086	3,271
Other current assets	685	651
Property, plant and equipment, net	7,737	8,112
Capitalized software, net	4,365	4,048
Goodwill	746	746
Intangible assets, net	1,074	1,283
	\$ 41,364	\$ 41,939



**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

	October 31, 2005	July 31, 2005
Current liabilities of discontinued operations:		
Note payable	\$ 42	\$ 42
Obligations under capital leases	121	162
Account payable, trade	2,138	1,699
Accrued liabilities	3,129	2,824
Deferred revenue	21,406	22,667
Advance payments	2,017	1,950
Accrued income taxes	12	
Deferred income taxes	486	850
Accumulated other comprehensive income	444	433
	\$ 29,795	\$ 30,627

**3. Share-based payment:**

Effective August 1, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R) ( SFAS No. 123(R) ), *Share-Based Payment*, which establishes accounting for equity instruments exchanged for employee services. Under the provisions of SFAS No. 123(R), share-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period (generally the vesting period of the equity grant). Prior to August 1, 2005, the Company accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The Company also followed the disclosure requirements of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS No. 123 ). The Company elected to adopt the modified prospective transition method as provided by SFAS No. 123(R) and, accordingly, financial statement amounts for the prior periods presented in this Form 10-Q have not been restated to reflect the fair value method of expensing share-based compensation.

The following table presents share-based compensation expenses for continuing operations included in the Company's unaudited consolidated statements of operations:

	Three Months Ended October 31, 2005
Cost of product sales	\$ 80
Research and product development	280
Selling and marketing	67
General and administrative	527
Share-based compensation expense before tax	954
Provision for income tax	166
Net share-based compensation expense	\$ 788

As a result of adopting FAS 123(R), the Company's income before income taxes and net income for the quarter ended October 31, 2005, are \$564 and \$537 lower, respectively, than if it had continued to account for share-based compensation under APB 25. Basic and diluted earnings per share for the quarter

7

---

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

ended October 31, 2005 would have been \$0.14, if the Company had not adopted FAS 123(R), compared to reported basic and diluted earnings per share of \$0.10.

Prior to adoption of FAS 123(R), the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statements of Cash Flows. FAS 123(R) requires the cash flows resulting from the tax benefits resulting from tax deductions in excess of the compensation cost recognized for the options (excess tax benefits) to be classified as financing cash flows. The \$17 tax benefit classified as a financing cash flow would have been classified as an operating cash flow if the Company had not adopted FAS 123(R).

The Company estimates the fair value of stock options using the Black-Scholes valuation model. Key input assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's expected annual dividend yield. The Company believes that the valuation technique and the approach utilized to develop the underlying assumptions are appropriate in calculating the fair values of the Company's stock options granted in the three months ended October 31, 2005. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards.

The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions:

	<b>Three Months Ended October 31, 2005</b>
Expected option term(1)	5.25 years
Expected volatility factor(2)	30%
Risk-free interest rate(3)	3.94%
Expected annual dividend yield	.7%

- (1) The option life was determined using the simplified method for estimating expected option life, which qualify as plain-vanilla options.
- (2) The stock volatility for each grant is determined based on the review of the experience of the weighted average of historical weekly price changes of the Company's common stock over the most recent five years, which approximates the expected option life of the grant of 5.25 years,
- (3) The risk-free interest rate for periods equal to the expected term of the share option is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company did not recognize compensation expense for employee stock option grants for the three months ended October 31, 2004, when the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of grant.

The Company has recognized compensation expense for its restricted stock grants. Upon adoption of SFAS 123(R), using the modified prospective method, the Company recognized a benefit of \$181 (\$120 after tax) as a cumulative effect of a change in accounting principle resulting from the requirement to estimate forfeitures of the Company's restricted stock grants at the date of grant instead of recognizing them as incurred. The estimated forfeiture rate was applied to the previously recorded compensation expense of the Company's unvested restricted stock in determining the cumulative effect of a change in accounting principle. The cumulative benefit, net of tax, increased

both basic and diluted earnings per share by \$0.01.

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

The Company had previously adopted the provisions of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* through disclosure only. The following table illustrates the effects on net income and earnings per share for the three months ended October 31, 2004 as if the Company had applied the fair value recognition provisions of SFAS 123 to share-based employee awards.

	<b>Three Months Ended October 31, 2004</b>
Net income from continuing operations, as reported:	\$ 1,478
Add: Employee compensation expense for options included in reported net income	472
Less: Total employee compensation expense for options determined under the fair value method	(1,199)
Pro forma net income from continuing operations	\$ 751
Earnings per share from continuing operations:	
Basic as reported	\$ 0.11
pro forma	0.06
Diluted as reported	\$ 0.11
pro-forma	0.05

The fair value of each option grant was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions:

	<b>Three Months Ended October 31, 2004</b>
Expected term	5 years
Volatility	40%
Risk-free interest rate	3.23%
Dividend yield	.8%

***Stock Incentive Plans***

At October 31, 2005, the Company had two key employee stock option plans (one of which has lapsed as to the granting of options), two key employee stock bonus plans, two non-employee director stock option plans (one of which has lapsed as to the granting of options), and one employee stock purchase plan.

Options granted under the two key employee stock option plans generally become exercisable in installments commencing no earlier than two years from the date of grant and ending no later than six years from the date of grant. Unexercised options expire up to seven years from date of grant. Options issued under the plans are non-qualified options or incentive stock options and are issued at prices of not less than 100% of the fair market value of the common stock at the date of grant. Options granted under the two non-employee director stock option plans become exercisable in equal installments over three years commencing one year from the date of grant and remain exercisable



for ten years from the date of grant. Options issued under the plans are non-qualified options and are issued at prices of 100% of the fair market value of the common stock at the date of grant.

Under the Company's key employee stock bonus plans, restricted common stock may be granted to key employees under terms and conditions as determined by the Board of Directors. Generally, participants

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

under the stock bonus plans may not dispose or otherwise transfer stock granted for three years from date of grant. Stock granted under these plans generally vest in four equal installments beginning in the third year from the date of grant.

Under the employee stock purchase plan, eligible participants are granted options to purchase the Company's common stock twice a year at the lower of 85% of market value at the beginning or end of each period. Calculation of the number of options granted, and subsequent purchase of these shares, is based upon voluntary payroll deductions during each six-month period. The number of options granted to each employee under this plan, when combined with options issued under other plans, is limited to a maximum outstanding value of \$25 during each calendar year.

The fair value of each option granted under the employee stock purchase plan was estimated on the expected grant date using the Black-Scholes option pricing model with the following assumptions:

	<b>Three Months Ended October 31, 2005</b>
Expected term	.5 years
Volatility	25%
Risk-free interest rate	3.94%
Dividend yield	.7%

At October 31, 2005, 993,039 shares were reserved for grant under the above stock option, bonus and purchase plans.

The following table sets forth the stock option transactions from July 31, 2004 to the present:

	<b>Options Outstanding</b>			<b>Restricted Stock Grants Outstanding</b>	
	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Term</b>	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at July 31, 2005	678,324	41.71	4.31	188,345	43.36
Granted	13,600	48.54			
Exercised	(20,201)	37.20			
Vesting of restricted stock				(2,833)	51.27
Cancelled	(3,000)	46.92			
Outstanding at October 31, 2005	668,723	41.96	4.17	185,512	43.48

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

The following table summarizes information about stock options outstanding at October 31, 2005:

Range of Exercise Prices	Options Outstanding			Vested Options	
	Number of Shares Outstanding	Weighted Average of Remaining Contract Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$27.75 - \$40.39	215,914	2.79	\$ 36.88	163,152	\$ 35.99
40.95 - 42.04	177,500	5.52	41.33	24,251	41.19
42.48 - 47.00	170,559	3.83	43.73	90,299	43.62
48.54 - 52.20	104,750	5.25	50.58	20,745	51.09
27.75 - 52.20	668,723	4.17	41.96	298,447	39.77

The following table summarizes the status of the Company's non-vested options since July 31, 2005:

	Non-Vested Options		Non-Vested Restricted Stock Grants	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
<b>Non-vested at July 31, 2005</b>	425,409	16.97	188,345	43.36
Granted	13,600	15.53		
Vested	(65,983)	16.88	(2,833)	51.27
Forfeited	(2,750)	17.63		
<b>Non-vested at October 31, 2005</b>	370,276	16.91	185,512	43.48

As of October 31, 2005, there was \$8,668 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's stock plans. That cost is expected to be recognized over a weighted-average period of 4.5 years.

Cash received from option exercises under all share based payment arrangements for the quarter ended October 31, 2005 was \$770. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$53.

**4. Restructuring and asset impairment charges:**

Edgar Filing: ANALOGIC CORP - Form 10-Q

During the three months ended October 31, 2005, the Company recorded restructuring and asset impairment charges as an operating expense in the Company's Unaudited Consolidated Statements of Operations as follows:

	<b>Three Months Ended October 31, 2005</b>
Medical Technology Products:	
Medical Imaging Products:	
PhotoDetection Systems, Inc.	\$ 216
Corporate and other:	
SKY Computers, Inc.	809
Total	\$ 1,025

**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

**PhotoDetection Systems Inc.**

On May 21, 2003, the Company acquired 1,251,313 shares of Series B Convertible Participating Preferred Stock for an equity interest of approximately 11% in PhotoDetection Systems Inc. ( PDS ) of Acton Massachusetts. PDS, a privately held company, has developed proprietary detection systems for high-performance Positron Tomography, a rapidly growing medical diagnostic imaging modality. Since the second quarter of fiscal year 2005, the Company had been accounting for this investment under the cost method of accounting in accordance with EITF 02-14, *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock* . The Company reviewed this investment for other-than-temporary impairment in accordance with Financial Accounting Standard No. 115, *Accounting for Certain Investments in Debt and Equity Security* and determined that at October 31, 2005, its investment in PDS was impaired based on its current fair value, and therefore, recorded an asset impairment charge of \$216 in the quarter ended October 31, 2005. At October 31, 2005, the Company's investment in PDS was recorded, net of impairment charges, at \$0 value.

**SKY Computers, Inc.**

In September 2005, the Company announced a plan to restructure the business operations of its wholly-owned subsidiary, SKY Computers, Inc.. The decision to restructure SKY was based on continued lower than expected sales. SKY's manufacturing and service capability will be maintained in order to service its commitments to its existing customers. The restructuring plan involves (1) the termination of approximately 36 employees most of whom have been engaged in product development, sales, and administrative activities; (2) the write-down of certain capital assets; and (3) the write-down of certain inventory. The severance and the write-down of capital assets charges have been recorded within the operating expenses in the Unaudited Consolidated Statements of Operations under the caption Restructuring and asset impairment charges while the write-down of inventory is recorded in the Unaudited Consolidated Statements of Operations within product cost of sales. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit Disposal Activities*, these charges are recorded when a liability is incurred.

A summary of the charges is as follows:

**Three Months Ended October 31, 2005**

	<b>Involuntary Employee Severance</b>	<b>Capital Assets Abandoned</b>	<b>Sub-Total</b>	<b>Inventory Impairment</b>	<b>Total</b>
<b>Expenses:</b>					
Cash expensed	\$ 15	\$	\$ 15	\$	\$ 15
Accrual/non-cash	484	310	794	1,179	1,973
Total expense	\$ 499	\$ 310	\$ 809	\$ 1,179	\$ 1,988

The Company estimates that an additional \$404 of personnel-related charges for separate employees who have minimum retention periods of more than 60 days will be incurred and recorded as period costs, during the remainder of fiscal year 2006, which represents the future service period. The cash expenditures subsequent to the quarter ended October 31, 2005 will approximate \$888 in personnel-related charges.

These restructuring and asset impairment charges are related to the Corporate and other segment.

**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

**5. Balance sheet information:**

Additional information for certain balance sheet accounts is as follows for the dates indicated:

	<b>October 31, 2005</b>	<b>July 31, 2005</b>
<b>Inventories:</b>		
Raw materials	\$ 40,070	\$ 37,461
Work-in-process	16,589	15,275
Finished goods	11,850	10,868
	<b>\$ 68,509</b>	<b>\$ 63,604</b>
<b>Accrued liabilities:</b>		
Accrued employee compensation and benefits	\$ 9,896	\$ 9,817
Accrued warranty	4,186	4,057
Other	4,270	5,746
	<b>\$ 18,352</b>	<b>\$ 19,620</b>
<b>Advance payments:</b>		
Long-lead time components(A)	\$	\$ 6,170
Ramp-up funds	475	475
Customer deposits	838	1,628
	<b>\$ 1,313</b>	<b>\$ 8,273</b>

(A) Long-lead time components represents advance payments received from L-3 Communications based on certain orders received for the Company's EXACT systems.

**6. Investments in and advances to affiliated companies:**

Summarized results of operations of the Company's partially owned equity affiliates, Shenzhen Anke High-Tech Co. Ltd. ( SAHCO ) for the three months ended October 31, 2005 and 2004, and Cedara Software Corporation for the three months ended October 31, 2004 are as follows:

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Net revenue	\$ 3,830	\$ 13,412
Gross margin	1,352	8,964
Income (loss) from operations	(909)	937
Net income (loss)	(1,214)	1,116

**7. Intangible assets:**

Intangible assets at October 31, 2005 and July 31, 2005, which will continue to be amortized, consisted of the following:

	October 31, 2005			July 31, 2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Intellectual Property	\$ 8,264	\$ 4,971	\$ 3,293	\$ 8,264	\$ 4,576	\$ 3,688

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

Amortization expense related to acquired intangible assets was \$405 and \$402 for the three months ended October 31, 2005 and 2004, respectively. Amortization lives of intangibles range from two to five years.

The estimated future amortization expense related to intangible assets in the current fiscal year, and each of the three succeeding fiscal years, is expected to be as follows:

2006 (Remaining nine months)	\$ 1,230
2007	1,643
2008	399
2009	21
	\$ 3,293

**8. Net income per share:**

Basic earnings per share are computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the sum of the weighted average number of common shares outstanding during the period and, if dilutive, the weighted average number of potential shares of common stock, including unvested restricted stock and the assumed exercise of stock options using the treasury stock method.

The following table sets forth the computation of basic and diluted earnings per share:

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Income from continuing operations	\$ 1,063	\$ 1,478
Income (loss) from discontinued operations, net of tax	159	(1,313)
Cumulative effect of change in accounting principle, net of tax	120	
Net income	\$ 1,342	\$ 165
Weighted average number of common shares outstanding-basic	13,631	13,521
Effect of dilutive securities:		
Stock options and restricted stock	103	25
Weighted average number of common shares outstanding-diluted	13,734	13,546
Basic earnings (loss) per share:		
From continuing operations	\$ .008	\$ 0.11
From discontinued operations	0.01	(0.10)
Cumulative effect of change in accounting principle	0.01	
	\$ 0.10	\$ 0.01
Diluted earnings (loss) per share:		
From continuing operations	\$ 0.08	\$ 0.11
From discontinued operations	0.01	(0.10)



Cumulative effect of change in accounting principle	0.01		
	\$ 0.10	\$	0.01
Anti-dilutive shares related to outstanding stock options	303		469

**9. Dividends:**

The Company declared a dividend of \$.08 per common share on September 20, 2005, payable on October 18, 2005 to shareholders of record on October 4, 2005.

**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

**10. Comprehensive income:**

Components of comprehensive income include net income and certain transactions that have generally been reported in the consolidated Statement of Stockholders' Equity. The following table presents the calculation of total comprehensive income and its components:

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Income from continuing operations	\$ 1,063	\$ 1,478
Income (loss) from discontinued operations, net of tax	159	(1,313)
Cumulative effect of change in accounting principle, net of tax	120	
	1,342	165
Other comprehensive income (loss), net of taxes:		
Unrealized losses from marketable securities, net of tax benefit of \$22 and \$52, for the three months ended October 31, 2005 and 2004, respectively	(35)	(81)
Foreign currency translation adjustment, net of tax benefit of \$182 and taxes of \$976 for the three months ended October 31, 2005 and 2004, respectively	(211)	1,490
Total comprehensive income	\$ 1,096	\$ 1,574

**11. Supplemental disclosure of cash flow information:**

Changes in operating assets and liabilities, net of the impact of acquisitions, from continuing operations are as follows:

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Accounts and notes receivable	\$ 5,151	\$ 4,071
Refundable income taxes	(4,918)	
Accounts receivable from affiliates	(26)	88
Inventories	(6,059)	(31)
Costs related to deferred revenue	388	103
Other current assets	(379)	(390)
Other assets	5	3
Accounts payable, trade	5,741	2,079
Accrued liabilities	(1,238)	(241)
Advance payments and deferred revenue	(5,609)	6,980
Accrued income taxes	(3,327)	(10)
Net changes in operating assets and liabilities	\$ (10,271)	\$ 12,652

**12. Taxes:**

The effective tax rate for continuing operations for the first quarter of fiscal 2006 and fiscal 2005 was 30.3% and 16.5% respectively. The effective tax rate for discontinued operations for the first quarter of fiscal 2006 and fiscal 2005 was 44.2% and 17.3% respectively. The higher effective rates in fiscal 2006 are largely the result of higher income, non-deductible incentive stock option expense, and reductions in the amount of federal and state research and development credits.

**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

**13. Segment information:**

The Company operates primarily within two major markets within the electronics industry: Medical Technology Products and Security Technology Products. Medical Technology Products consist of two reporting segments: Medical Imaging Products which consist primarily of electronic systems and subsystems for medical imaging equipment and patient monitoring; and B-K Medical ApS ( B-K Medical ) for ultrasound systems and probes in the urology, surgery and radiology markets. Security Technology Products consist of advanced weapon and threat detection systems and subsystems.

The Company's Corporate and Other represents the Company's hotel business, net interest income, and other Company operations, primarily analog to digital (A/D) converters and supporting modules, and embedded multi-processing equipment, which do not meet the materiality requirements for separate disclosure. The accounting policies of the segments are the same as those described in the summary of Significant Accounting Policies included in Note 1 of Notes to Consolidated Financial Statements in the Company's annual report on Form 10-K for the fiscal year ended July 31, 2005.

Previously Camtronics had been reported as a separate segment. Prior to the end of the quarter, the Company's board of directors approved an agreement to sell Camtronics, and as a result, the Company is reporting Camtronics as discontinued operations. On November 1, 2005 the Company sold its Camtronics operating segment to better focus on its other core lines of business. See Note 2 of Notes to Unaudited Consolidated Financial Statements.

The table below presents information about the Company's reportable segments.

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>Revenues:</b>		
Medical technology products from external customers:		
Medical imaging products	\$ 46,315	\$ 43,216
B-K Medical	14,885	16,341
	61,200	59,557
Security technology products from external customers	19,866	10,152
Corporate and other	5,344	5,421
<b>Total</b>	<b>\$ 86,410</b>	<b>\$ 75,130</b>
<b>Income (loss) from continuing operations before income taxes and cumulative effects of change in accounting principle:</b>		
Medical technology products:		
Medical imaging products	\$ (2,606)	\$ (1,145)
B-K Medical	(761)	1,153
	(3,367)	8
Security technology products	4,808	1,251
Corporate and other	84	512
<b>Total</b>	<b>\$ 1,525</b>	<b>\$ 1,771</b>



**Table of Contents**

**ANALOGIC CORPORATION**  
**NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

	October 31, 2005	July 31, 2005
Identifiable assets:		
Medical imaging products	\$ 113,714	\$ 106,947
B-K Medical	67,934	71,143
Security technology products	16,736	15,497
Corporate and other(A)	254,266	261,179
Total assets from continuing operations	452,650	454,766
Assets of discontinued operations	41,364	41,939
Total	\$ 494,014	\$ 496,705

(A) Includes cash equivalents and marketable securities of \$191,847 at October 31, 2005, and \$195,321 and at July 31, 2005.

**14. Commitments and guarantees:**

The Company has agreements whereby it indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited. Also, to the extent permitted by Massachusetts law, the Company's Articles of Organization require the Company to indemnify directors of the Company and the Company's By-Laws require the Company to indemnify the present or former directors and officers of the Company, and also permit indemnification of other employees and agents of the Company for whom the Board of Directors from time to time authorizes indemnification. In no instance, however, will indemnification be granted to a director otherwise entitled thereto who is determined to have (a) committed a breach of loyalty to the Company or its stockholders, (b) committed acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of the law, or (c) derived any improper personal benefit in connection with a particular transaction. Because no claim for indemnification has been made by any person covered by said agreements, and/or the relevant provisions of the Company's Articles of Organization or By-laws, the Company believes that its estimated exposure for these indemnification obligations is currently minimal.

Accordingly, the Company has no liabilities recorded for these indemnity agreements and requirements as of October 31, 2005.

In November 2002, the Financial Accounting Standard Board (FASB) issued FIN No. 45 *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Other, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 (FIN 45)*. FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. The following is a summary of agreements that the Company determined are within the scope of FIN 45.

The Company's standard original equipment manufacturing and supply agreements entered into in the ordinary course of business typically contain an indemnification provision pursuant to which the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party in connection with any United States patent, or any copyright or other intellectual property infringement claim by any

third party with respect to the Company's products. Such provisions generally survive termination or expiration of the agreements. The potential amount of future payments the Company could be required to make under these indemnification provisions is, in some

**Table of Contents****ANALOGIC CORPORATION****NOTES TO UNAUDITED CONSOLIDATED STATEMENTS (Continued)**

instances, unlimited. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification obligations. As a result, the Company believes that its estimated exposure on these agreements is currently minimal. Accordingly, the Company has no liabilities recorded for these agreements as of October 31, 2005.

Generally, the Company warrants that its products will perform in all material respects in accordance with its standard published specifications in effect at the time of delivery of the products to the customer for a period ranging from 12 to 24 months from the date of delivery. The Company provides for the estimated cost of product and service warranties based on specific warranty claims, claim history and engineering estimates, where applicable.

The following table presents the Company's product warranty liability for the reporting periods:

	<b>Three Months Ended October 31,</b>	
	<b>2005</b>	<b>2004</b>
Balance at the beginning of the period	\$ 4,057	\$ 4,053
Accrual for warranties issued during the period	644	705
Accrual related to pre-existing warranties (including changes in estimate)	795	617
Settlements made in cash or in kind during the period	(1,310)	(1,121)
Balance at the end of the period	\$ 4,186	\$ 4,254

**15. Subsequent events:**

On December 8, 2005, the Company announced that its Board of Directors, on December 6, 2005, declared a dividend of \$.10 per common share payable on January 3, 2006 to shareholders of record on December 20, 2005.

On November 1, 2005, Emageon Inc. ( Emageon ) purchased from the Company all of the outstanding shares of capital stock of Camtronics Medical Systems, Ltd. ( Camtronics ), a supplier of cardiovascular information management and hemodynamic monitoring technology and a wholly-owned subsidiary of the Company, pursuant to the terms of a Stock Purchase Agreement (the Stock Purchase Agreement ) dated as November 1, 2005, between the Company and Emageon. The aggregate purchase price paid for all of the outstanding shares of capital stock of Camtronics was \$40,000. The Stock Purchase Agreement contains customary representations, warranties, and indemnities. The Company expects to record a gain from this transaction in the quarter ending January 31, 2006.



**Table of Contents**

**Management's Discussion and Analysis of Financial Condition and Results of Operations**

All dollar amounts in this Item 2 are in thousands except per share data.

The following discussion provides an analysis of the Company's financial condition and results of operations and should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes thereto included elsewhere in this Quarterly Report on Form 10-Q. The discussion below contains forward-looking statements within the meaning of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, the Company makes in this document or in any document incorporated by reference are forward-looking. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause the actual results, performance, or achievements of the Company to differ from the projected results. See separate section entitled Risk Factors.

**Summary**

The following is a summary of the areas that management believes are important in understanding the results of the periods indicated. This summary is not a substitute for the detail provided in the following pages or for the unaudited consolidated financial statements and notes that appear elsewhere in this document.

On September 28, 2005, the Company decided to restructure the business operations of its wholly-owned subsidiary, Sky Computers Inc. ( Sky ). The decision to restructure Sky was based on continued lower than expected sales. During the three months ended October 31, 2005 the Company recorded restructuring costs of \$499 for severance, \$310 for capital assets impairment and \$1,179 write-down of inventory.

On November 1, 2005, the Company sold its wholly owned subsidiary Camtronics Medical Systems, Ltd. ( Camtronics ) for \$40,000 in cash. The Company sold its Camtronics operating segment to better focus on its other core lines of business. As part of the terms of the definitive agreement, the Company retained all of the cash and inter-company balances as of the closing date. Revenues for Camtronics for the three months ended October 31, 2005 and 2004 were \$11,495 and \$8,961, respectively. The results of discontinued operations for the three months ending October 31, 2005 and 2004 for Camtronics were a net income of \$159 and a net loss of \$1,313, respectively. The Company expects to recover all of its net assets sold and expects to record a gain on the transaction effective upon consummation on November 1, 2005.

Net sales from continuing operations for the first quarter ended October 31, 2005 were \$11,280 or 15% higher than the same period last year, primarily due to an increase in the sale of EXACT systems, increased demand for the Company's 64 slice data acquisition systems, partially offset by lower digital x-ray systems mainly to one OEM customer. Gross margin for the quarter ended October 31, 2005 was 35.1% versus 37.0% for the same period last year. The reduction in gross margin was primarily due to higher margin customer funded projects in the prior year. Current year margin has been negatively impacted by expected losses on customer funded projects. Total operating expenses increased \$2,462 over the same period last year, primarily due to increased personnel and related costs to support product development, which continues to be focused on developing new generations of medical imaging equipment, including Computed Tomography systems and an extended family of multi-slice CT data acquisition systems, and a number of security systems projects; restructuring and asset impairment charges associated with Sky Computers operation; and expenses associated with share-based payments in connection with the adoption of SFAS 123(R) on August 1, 2005. Basic and diluted earnings per share from continuing operations decreased by \$0.03 per share over the same period late year. The Company's cash, cash equivalent and marketable securities decreased \$2,344 from July 31, 2005, primarily due to estimated tax payments.

**Table of Contents****Critical Accounting Policies, Judgments, and Estimates**

The SEC considers critical accounting policies to be the ones that are most important to the portrayal of a company's financial condition and operating results, and require management to make its most difficult and subjective judgments, often as a result of the need to make estimates on matters that are inherently uncertain. In the case of the Company's critical accounting policies, these judgments are based on its historical experience, terms of existing contracts, the Company's observance of trends in the industry, information provided by its customers and information available from other outside sources, as appropriate. The Company's critical accounting policies, judgments, and estimates include:

***Revenue Recognition and Accounts Receivable***

The Company recognizes the majority of its revenue in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition in Financial Statements*. Revenue related to product sales is recognized upon shipment provided that title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, the sales price is fixed or determinable, collection of the related receivable is reasonably assured and customer acceptance criteria, if any, have been successfully demonstrated. For product sales with acceptance criteria that are not successfully demonstrated prior to shipment, revenue is recognized upon customer acceptance, provided all other revenue recognition criteria have been met. The Company's sales contracts generally provide for the customer to accept title and risk of loss when the product leaves the Company's facilities. When shipping terms or local laws do not allow for passage of title and risk of loss at the shipping point, the Company defers recognizing revenue until title and risk of loss transfer to the customer. The Company classifies shipping and handling costs in cost of sales.

The Company's transactions sometimes involve multiple elements (i.e., systems and services). Revenue under multiple element arrangements is recognized in accordance with Emerging Issues Task Force (EITF) Issue No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. Under this method, if an element is determined to be a separate unit of accounting, the revenue for the element is based on fair value and determined by verifiable objective evidence, and recognized at the time of delivery. If the arrangement has an undelivered element, the Company ensures that they have objective and reliable evidence of the fair value of the undelivered element. Fair value is determined based upon the price charged when the element is sold separately. Maintenance or service revenues are recognized ratably over the life of the contracts.

For business units that sell software licenses or products in which the software is considered more than incidental, the Company recognizes revenue in accordance with the American Institute of Certified Public Accountants (AICPA)'s Statement of Position 97-2, *Software Revenue Recognition* (SOP 97-2). The application of SOP 97-2 requires judgment, including whether a software arrangement includes multiple elements, and if so, whether vendor-specific objective evidence (VSOE) of fair value exists for those elements. License revenue is recognized upon delivery, provided that persuasive evidence of an arrangement exists, no significant obligations with regard to installation or implementation remain, fees are fixed or determinable, collectibility is probable, and customer acceptance, when applicable, is obtained. We allocate revenue first to the fair value of the undelivered elements and allocate the residual revenue to the delivered elements. Hardware and software maintenance is marketed under annual and multi-year arrangements and revenue is recognized ratably over the contracted maintenance term.

As it relates to services, Camtronics may also provide services that vary depending on the scope and complexity requested by the customer. Examples of such services include additional database consulting, systems configuration, project management, interfacing to existing systems, and network consulting. Services generally are not deemed to be essential to the functionality of the software. If Camtronics has VSOE for the services, the timing of the software license revenue is not impacted. If the Company does have VSOE, service revenue is recognized as the services are performed. Camtronics commonly performs services for which the Company does not have VSOE; accordingly, the software license revenue is deferred until the services are completed.

**Table of Contents**

The Company provides engineering services to some of its customers on a contractual basis and recognizes revenue using the percentage of completion method. The Company estimates the percentage of completion on contracts with a fixed fee arrangement on a monthly basis utilizing costs incurred to date as a percentage of total estimated costs to complete the project. If the Company does not have a sufficient basis to measure progress towards completion, revenue is recognized upon completion of the contract. When total cost estimates exceed revenues, the Company accrues for the estimated losses immediately.

Deferred revenue is comprised of 1) license fee, maintenance and other service revenues for which payment has been received and for which services have not yet been performed and 2) revenues related to delivered components of a multiple-element arrangement for which VSOE of fair value has not been determined for components not yet delivered or accepted by the customer. Deferred costs represent costs related to these revenues; for example, costs of goods sold and services provided and sales commission expenses.

Revenue related to the hotel operations is recognized as services are performed.

The Company grants credit to domestic and foreign original equipment manufacturers, distributors, and end users, and performs ongoing credit evaluations of its customers' financial condition. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified.

***Inventories***

The Company values inventory at the lower of cost or market using the first-in, first-out method. Management assesses the recoverability of inventory based on types and levels of inventory held, product life cycles, and changes in technology. A variety of methodologies are used to determine the amount of inventory reserves necessary for excess and obsolete inventory. The write-downs are based upon the age of the inventory, lower of cost or market, along with significant management judgments concerning future demands for the inventory. If actual demand for the Company's products is less than its estimates, or the Company experiences a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, additional write-downs for existing inventories may be recorded in future periods.

***Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities, and accounts receivable. The Company maintains a bond investment portfolio of various types and maturities with high credit quality issuers. Cash and cash equivalents not required for working capital purposes are placed in short term investments with original maturities for six months or less. The Company grants credit to domestic and foreign original equipment manufacturers, distributors, and end users, and performs ongoing credit evaluations on its customers' financial condition. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within expectations and provisions established, there is no guarantee that the Company will continue to experience the same credit loss rates as in the past. Since the accounts receivable are concentrated among relatively few customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

***Warranty Reserve***

The Company provides for the estimated cost of product warranties at the time products are shipped. Although the Company engages in extensive product quality programs and processes, its warranty obligations are affected by product failure rates and service delivery costs incurred to correct product

**Table of Contents**

failures. Should actual product failure rates or service delivery costs differ from the Company's estimates (which are based on specific warranty claims, historical data, and engineering estimates, where applicable), revisions to the estimated warranty liability would be required. Such revisions could adversely affect the Company's operating results. Generally, the Company warrants that its products will perform in all material respects in accordance with its standard published specifications in effect at the time of delivery of the products to the customer for a period ranging from 12 to 24 months from the date of delivery.

***Investments in and Advances to Affiliated Companies***

The Company has investments in affiliated companies related to areas of the Company's strategic focus. Investment in companies over which the Company has the ability to exercise significant influence are accounted for under the equity method if the Company holds 50% or less of the voting stock. Investments in companies over which the Company does not have the ability to exercise significant influence are accounted for under the cost method. In assessing the recoverability of these investments, the Company must make certain assumptions and judgments based upon changes in the Company's overall business strategy, the financial condition of the affiliated companies, market conditions, and the industry and economic environment in which the entities operate. Adverse changes in market conditions or poor operating results of affiliated companies could result in losses or an inability to recover the carrying value of the investments, thereby requiring an impairment charge in the future.

***Intangible Assets and Other Long-Lived Assets***

Intangible assets consist of: intellectual property, licenses, and capitalized software. Other long-lived assets consist primarily of property, plant, and equipment. These assets are reviewed for impairment annually in the first quarter of each fiscal year or whenever events or changes in circumstances indicate that the carrying value of assets may not be recoverable. Recoverability of these assets is measured by comparison of their carrying value to future undiscounted cash flows the assets are expected to generate over their remaining economic life. If such assets are considered to be impaired, the impairment to be recognized in earnings equals the amount by which the carrying value of the assets exceeds their fair market value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. Evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of long-lived assets could differ from the estimates used in assessing the recoverability of these assets. These differences could result in impairment charges, which could have a material adverse impact on the Company's results of operations.

***Income Taxes***

The Company is required to estimate its income taxes in each of the jurisdictions within which it operates. This process involves assessing temporary differences resulting from different treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the balance sheet. The Company must then assess the likelihood that the deferred tax assets will be recovered from future taxable income and, to the extent that recovery is not more than likely, a valuation allowance must be established. To the extent a valuation allowance is established, the Company must include an expense within the tax provision in the statement of operations. In the event that actual results differ from these estimates, the provision for income taxes and results of operations could be materially impacted. The Company establishes liabilities for possible assessments by taxing authorities resulting from known tax exposures including, but not limited to certain tax credits, and various federal, state and foreign tax matters. The Company does not provide for US Federal income taxes on undistributed earnings of consolidated foreign subsidiaries, as such earnings are intended to be indefinitely reinvested in those operations. Determination of the potential deferred income tax liability on these undistributed earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs. The American Jobs Act of 2004 creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received

**Table of Contents**

deduction for certain dividends received from controlled foreign corporations. The deduction is subject to a number of limitations. Based on the Company's analysis, this provision will not provide a benefit to the Company.

**Results of Operations*****Three Months Ended October 31, 2005 vs. Three Months Ended October 31, 2004***

Product revenue for the three months ended October 31, 2005 was \$79,721 compared to \$67,125 for the same period last year, and increase of \$12,596 or 19%. The increase in product revenue was primarily due to increased sales of Security Technology Products of \$11,183 or 146%, related to increased units of the EXACT systems shipped in the current period versus last year, and increased sales of Medical Technology Products of \$1,594 or 3%, primarily due to increased demand for the Company's data acquisition and computed tomography systems and subsystems, partially offset by lower demand for the Company's digital x-ray and ultrasound systems.

Engineering revenue for the three months ended October 31, 2005 was \$3,812 compared to \$5,240 for the same period last year, a decrease of \$1,428 or 27%. The decrease was primarily due to a reduction in certain customer funded projects.

Other revenue of \$2,877 and \$2,765 represents revenue for the hotel operations for the three months ended October 31, 2005 and 2004, respectively.

Product gross margin was \$30,719 for the three months ended October 31, 2005 compared to \$25,277 for the same period last year. Product gross margin as a percentage of product revenue was 38.5% and 37.7% for the three months ended October 31, 2005 and 2004, respectively. The increase was primarily due to higher sales of security technology products, which have a higher margin than most of the other Company's products, partially offset by the effect of the write-down of certain inventory of SKY Computers of \$1,179.

The engineering gross margin was negative \$1,921 for the three months ended October 31, 2005 as compared to a positive gross margin of \$1,178 for the same period last year. The negative margin was primarily a result of a determination that estimated costs at completion of a TSA contract will exceed the funded amount of the contract by approximately \$2,000. The positive margin for the three months ended October 31, 2004 was primarily due to sale of a license of intellectual property to the Company's affiliate SAHCO for which there was no cost.

Research and product development expenses were \$13,027 for the three months ended October 31, 2005 or 15.1% of total revenue compared to \$11,674, or 15.5% of total revenue for the same period last year. The increase of \$1,353 was primarily due to increased personnel and related costs to support product development, which continues to be focused on developing new generations of medical imaging equipment, including Computed Tomography (CT) systems and an extended family of multi-slice CT data acquisition systems, and projects for security systems, including expenses associated with share-based payments in connection with the adoption of SFAS 123(R).

Selling and marketing expenses were \$7,354 for the three months ended October, 31, 2005, or 8.5% of total revenue, as compared to \$6,719, or 8.9% of total revenue for the same period last year. The increase of \$635 consists primarily of salaries and other related costs for additional sales and marketing personnel, travel, and trade show participations.

General and administrative expenses were \$8,664 for the three months ended October 31, 2005 or 10.0% of total revenue, compared to \$9,215 or 12.3% of total revenue for the same period last year. The decrease of \$551 was primarily attributable to legal expenses incurred last year for the L-3 litigation and the Camtronics subsidiary review of certain transactions for revenue recognition costs, and a real estate tax abatement rebate received during the first quarter of fiscal year 2006. These reductions were partially offset by expenses associated with share-based payments in connection with the adoption of SFAS 123(R).

**Table of Contents**

Restructuring and asset impairment charges were \$1,025 for the three months ended October 31, 2005, related to PDS impairment charges of \$216 based on the net realizable value of the Company's investments, and \$809 for severance costs and certain write-downs of capital assets for the restructuring of Sky Computers.

Interest income was \$2,033 for the three months ended October 31, 2005 compared with \$864 for the same period last year. The increase was primarily due to higher effective interest rates on higher invested cash balances.

The Company recorded an equity loss in unconsolidated affiliates of \$570 related to SAHCO for the three months ended October 31, 2005 versus an equity gain of \$127 for the same period last year. The equity gain for the same period last year was due to equity gain of \$318 related to SAHCO offset by an equity loss of \$191 reflecting the Company's share of equity in Cedara.

Other expense was \$157 for the three months ended October 31, 2005 compared to other income of \$608 for the same period last year. Other expenses and other income consisted predominantly of foreign currency exchange gains or losses incurred by the Company's Canadian and Danish subsidiaries.

The effective tax rate for continuing operations for the first quarter of fiscal 2006 and fiscal 2005 was 30.3% and 16.5% respectively. The higher effective rate in fiscal 2006 is largely the result of higher income, non-deductible incentive stock option expense, and reductions in the amount of federal and state research and development credits.

Net income from continuing operations was \$1,063 for the three months ended October 31, 2005 compared to \$1,478 for the same period last year. Basic and diluted earnings per share from continuing operation were \$0.08 and \$0.11 for the first quarter ended October 31, 2005 and 2004, respectively.

**Liquidity and Capital Resources**

Cash and cash equivalents and marketable securities totaled \$218,110 and \$220,454 at October 31, 2005 and July 31, 2005. The Company's balance sheet reflects a current ratio of 4.3 to 1 at October 31, 2005 compared to 4.1 to 1 at July 31, 2005. Liquidity is sustained principally through funds provided from operations, with short-term deposits and marketable securities available to provide additional sources of cash. The Company's debt to equity ratio was .23 to 1 at October 31, 2005 and .24 to 1 at July 31, 2005. The Company believes that its balances of cash and cash equivalents, marketable securities and cash flows expected to be generated by future operating activities will be sufficient to meet its cash requirements over at least the next twelve months.

The Company faces limited exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as business practices evolve and could have a material adverse impact on the Company's financial results. The Company's primary exposure is related to fluctuations between the US dollar and local currencies for the Company's subsidiaries in Canada and Europe.

The carrying amounts reflected in the Unaudited Consolidated Balance Sheets of cash and cash equivalents, trade receivables, and trade payables approximate fair value at October 31, 2005, due to the short maturities of these instruments.

The Company maintains a bond investment portfolio of various issuers, types, and maturities. This portfolio is classified on the balance sheet as either cash and cash equivalents or marketable securities, depending on the length of time to maturity from original purchase. Cash equivalents include all highly liquid investments primarily invested in US treasury and US government agency securities with maturities of six months or less from the time of purchase. Investments having maturities from the time of purchase in excess of six months are stated at amortized cost, which approximates fair value, and are classified as available for sale. A rise in interest rates could have an adverse impact on the fair value of the Company's investment portfolio. The Company does not currently hedge these interest rate exposures.

**Table of Contents**

Net cash provided by operating activities was \$2,085 for the quarter ended October 31, 2005, including \$1,700 by continuing operations and \$385 by discontinued operations. The cash flow generated by continuing operations from operating activities of \$1,700 for the first quarter ended October 31, 2005, was primarily due to net income, depreciation and amortization, non-cash impact of asset impairment charges, and higher receivable collections; partially offset by lower advance payments received primarily related to orders for the EXACT systems, and payment for income taxes.

Net cash used for investing activities was \$2,681 for the quarter ended October 31, 2005, including \$2,203 by continuing operations and \$478 by discontinued operations. Net cash used by continuing operations for investing activities was primarily due to capital expenditures of \$3,168, partially offset by \$1,360 proceeds from maturities of marketable securities.

Net cash used for financing activities for the quarter ended October 31, 2005, was \$291 for continuing operations and \$0 for discontinued operations. Net cash used for continued operations for financing activities consisted primarily of \$1,106 for dividends paid to stockholders, partially offset by \$798 of cash received from the issuance of stock pursuant to the Company's employee stock options plans.

The Company's contractual obligations at October 31, 2005, and the effect such obligations are expected to have on liquidity and cash flows in future periods are as follows:

	<b>Total</b>	<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>4-5 Years</b>	<b>More Than 5 Years</b>
Operating leases	\$ 6,431	\$ 1,483	\$ 2,040	\$ 1,429	\$ 1,479
Purchasing obligations	38,434	33,647	4,787		
	\$ 44,865	\$ 35,130	\$ 6,827	\$ 1,429	\$ 1,479

The Company currently has approximately \$23,500 in revolving credit facilities with various banks available for direct borrowings. As of October 31, 2005, there were no direct borrowings.

***New Accounting Pronouncements***

In June 2005, Financial Accounting Standards Board ( FASB ) issued FAS No. 154, *Accounting Changes and Error Corrections*. This statement replaces APB Opinion No. 20, *Accounting Changes*, and FAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. The statement applies to all voluntary changes in accounting for and reporting of changes in accounting principles. FAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principles unless it is not practical to do so. APB No. 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and errors made occurring in fiscal years beginning after May 31, 2005. The adoption of FAS No. 154 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued Financial Accounting Standards No. 151, *Inventory Costs* ( SFAS 151 ). SFAS 151 clarifies the accounting for inventory when there are abnormal amounts of idle facility expense, freight, handling costs, and wasted materials. Under existing GAAP, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges rather than recorded as adjustments to the value of the inventory. SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, SFAS 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the

production facilities. The provisions of SFAS 151 shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company adopted SFAS 151 in the first quarter of fiscal 2006. The adoption of SFAS 151 did not have a material impact on the Company's financial position or results of operations.



**Table of Contents**

In October 2004, the American Jobs Creation Act of 2004 (the AJCA ) was passed. The AJCA provides a deduction for income from qualified domestic production activities which will be phased in from 2005 through 2010. The AJCA also provides for a two-year phase-out of the existing extra-territorial income exclusion for foreign sales that was viewed to be inconsistent with international trade protocols by the European Union. In December 2004, the FASB issued FASB Staff Position No. 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes, to the Tax Deduction on Qualified Production Activities by the American Jobs Creation Act of 2004* ( FSP 109-1 ). FSP 109-1 treats the deduction as a special deduction as described in FASB Statement No. 109. As such, the special deduction has no effect on deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the same period in which the deduction is claimed in the Company's tax return. The Company is currently evaluating the impact the AJCA will have on its results of operations and financial position. The AJCA also creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends received from controlled foreign corporations. The deduction is subject to a number of limitations. Based on the Company's analysis, this provision of the AJCA will not produce a benefit to the Company.

**Forward-Looking Statements**

This Quarterly Report on Form 10-Q contains statements, which, to the extent that they are not recitation of historical facts, constitute forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements, including, without limitation, statements about product development, market and industry trends, strategic initiatives, regulatory approvals, sales, profits, expenses, price trends, research and development expenses and trends, and capital expenditures involve risk and uncertainties, and actual events and results may differ significantly from those indicated in any forward-looking statement as a result of a number of important factors, including those discussed below and elsewhere herein.

**Risk Factors**

You should carefully consider the risks described below before making an investment decision with respect to Analogic Common Stock. Additional risks not presently known to us, or that we currently deem immaterial, may also impair our business. Any of these could have a material and negative effect on our business, financial condition, or results of operations.

***Because a significant portion of our revenue currently comes from a small number of customers, any decrease in revenue from these customers could harm our operating results.***

We depend on a small number of customers for a large portion of our business, and changes in our customers orders may have a significant impact on our operating results. If a major customer significantly reduces the amount of business it does with us, there would be an adverse impact on our operating results. The following table sets forth the percentages of our net product and engineering revenue from our five largest customers in each of the last three fiscal years and the percentage of our product and engineering sales to our ten largest customers during these periods:

	October 31, 2005	Year Ended July 31,		
		2005	2004	2003
L-3 Communications	22%	16%	9%	47%
Toshiba	16%	15%	14%	7%
Siemens	11%	9%	10%	5%
General Electric	9%	10%	9%	7%
Philips	6%	7%	8%	4%
Ten largest customers as a group	75%	66%	68%	81%



**Table of Contents**

Although we are seeking to broaden our customer base, we will continue to depend on sales to a relatively small number of major customers. Because it often takes significant time to replace lost business, it is likely that our operating results would be adversely affected if one or more of our major customers were to cancel, delay, or reduce significant orders in the future. Our customer agreements typically permit the customer to discontinue future purchases after timely notice.

In addition, we generate significant accounts receivable in connection with the products we sell and the services we provide to our major customers. Although our major customers are large corporations, if one or more of our customers were to become insolvent or otherwise be unable to pay for our products and services, our operating results and financial condition could be adversely affected.

***Competition from existing or new companies in the medical and security imaging technology industry could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities, and the loss of market share.***

We operate in a highly competitive industry. We are subject to competition based upon product design, performance, pricing, quality, and services and we believe our innovative engineering and product reliability have been important factors in our growth. While we try to maintain competitive pricing on those products which are directly comparable to products manufactured by others, in many instances our products will conform to more exacting specifications and carry a higher price than analogous products manufactured by others.

Our competitors include divisions of some larger, more diversified organizations as well as several specialized companies. Some of them have greater resources and larger staffs than we have. Many of our OEM customers and potential OEM customers have the capacity to design and manufacture internally the products we manufacture for them. We face competition from research and product development groups and the manufacturing operations of our current and potential customers, who continually evaluate the benefits of internal research and product development and manufacturing versus outsourcing.

***We depend on our suppliers, some of which are the sole source for our components, and our production would be substantially curtailed if these suppliers are not able to meet our demands and alternative sources are not available.***

We order raw materials and components to complete our customers' orders, and some of these raw materials and components are ordered from sole-source suppliers. Although we work with our customers and suppliers to minimize the impact of shortages in raw materials and components, we sometimes experience short-term adverse effects due to price fluctuations and delayed shipments. In the past, there have been industry-wide shortages of electronics components. If a significant shortage of raw materials or components were to occur, we might have to delay shipments or pay premium pricing, which could adversely affect our operating results. In some cases, supply shortages of particular components will substantially curtail production of products using these components. We are not always able to pass on price increases to our customers. Accordingly, some raw material and component price increases could adversely affect our operating results. We also depend on a small number of suppliers, some of which are affiliated with customers or competitors and others of which may be small, poorly financed companies, for many of the other raw materials and components that we use in our business. If we are unable to continue to purchase these raw materials and components from our suppliers, our operating results could be adversely affected. Because many of our costs are fixed, our margins depend on our volume of output at our facilities and a reduction in volume could adversely affect our margins.

***If we are left with excess inventory, our operating results will be adversely affected.***

Because of long lead times and specialized product designs, we typically purchase components and manufacture products in anticipation of customer orders based on customer forecasts. For a variety of reasons, such as decreased end-user demand for our products, our customers might not purchase all the products we have manufactured or for which we have purchased components. In either event, we would

**Table of Contents**

attempt to recoup our materials and manufacturing costs by means such as returning components to our vendors, disposing of excess inventory through other channels or requiring our OEM customers to purchase or otherwise compensate us for such excess inventory. Some of our significant customer agreements do not give us the ability to require our OEM customers to do this. To the extent we are unsuccessful in recouping our material and manufacturing costs, not only would our net sales be adversely affected, but also our operating results would be disproportionately adversely affected. Moreover, carrying excess inventory would reduce the working capital we have available to continue to operate and grow our business.

***Uncertainties and adverse trends affecting our industry or any of our major customers may adversely affect our operating results.***

Our business operates primarily within two major markets within the electronics industry, Medical Technology Products and Security Technology Products, which are subject to rapid technological change and pricing and margin pressure. These markets have historically been cyclical and subject to significant downturns characterized by diminished product demand, rapid declines in average selling prices and production over-capacity. In addition, changes in government policy relating to reimbursement for the purchase and use of medical and security related capital equipment could also affect our sales. Our customers' markets are also subject to economic cycles and are likely to experience recessionary periods in the future. The economic conditions affecting our industry in general, or any of our major customers in particular, might adversely affect our operating results. Our other businesses are subject to the same or greater technological and cyclical pressures.

***Our customers' delay or inability to obtain any necessary United States or foreign regulatory clearances or approvals for their products could have a material adverse effect on our business.***

Our products are used by a number of our customers in the production of medical devices that are subject to a high level of regulatory oversight. A delay or inability to obtain any necessary United States or foreign regulatory clearances or approvals for products could have a material adverse effect on our business. The process of obtaining clearances and approvals can be costly and time-consuming. There is a further risk that any approvals or clearances, once obtained, might be withdrawn or modified. Medical devices cannot be marketed in the United States without clearance or approval from the FDA. Medical devices sold in the United States must also be manufactured in compliance with FDA rules and regulations, which regulate the design, manufacture, packing, storage, and installation of medical devices. Moreover, medical devices are required to comply with FDA regulations relating to investigational research and labeling. States may also regulate the manufacture, sale, and use of medical devices. Medical devices are also subject to approval and regulation by foreign regulatory and safety agencies.

***Our business strategy involves the pursuit of acquisitions or business combinations, which may be difficult to integrate, disrupt our business, dilute stockholder value or divert management attention.***

As part of our business strategy, we may consummate acquisitions or business combinations. Acquisitions are typically accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired companies, the potential disruption of our ongoing business and distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. If we do not successfully complete acquisitions that we pursue in the future, we may incur substantial expenses and devote significant management time and resources in seeking to complete proposed acquisitions that will not generate benefits for us. In addition, substantial portions of our available cash might be utilized as consideration for these acquisitions.

**Table of Contents**

***Our annual and quarterly operating results are subject to fluctuations, which could affect the market price of our common stock.***

Our annual and quarterly results may vary significantly depending on various factors, many of which are beyond our control, and may not meet the expectations of securities analysts or investors. If this occurs, the price of our common stock would likely decline. These factors include:

variations in the timing and volume of customer orders relative to our manufacturing capacity;

introduction and market acceptance of our customers' new products;

changes in demand for our customers' existing products;

the timing of our expenditures in anticipation of future orders;

effectiveness in managing our manufacturing processes;

changes in competitive and economic conditions generally or in our customers' markets;

changes in the cost or availability of components or skilled labor;

foreign currency exposure; and

investor and analyst perceptions of events affecting the Company, our competitors and/or our industry.

As is the case with many technology companies, we typically ship a significant portion of our products in the last month of a quarter. As a result, any delay in anticipated sales is likely to result in the deferral of the associated revenue beyond the end of a particular quarter, which would have a significant effect on our operating results for that quarter. In addition, most of our operating expenses do not vary directly with net sales and are difficult to adjust in the short term. As a result, if net sales for a particular quarter were below our expectations, we could not proportionately reduce operating expenses for that quarter, and, therefore, that revenue shortfall would have a disproportionate adverse effect on our operating results for that quarter.

***Loss of any of our key personnel could hurt our business because of their industry experience and their technological expertise.***

We operate in a highly competitive industry and depend on the services of our key senior executives and our technological experts. The loss of the services of one or several of our key employees or an inability to attract, train and retain qualified and skilled employees, specifically engineering and operations personnel, could result in the loss of customers or otherwise inhibit our ability to operate and grow our business successfully.

***If we are unable to maintain our technological expertise in research and product development and manufacturing processes, we will not be able to successfully compete.***

We believe that our future success will depend upon our ability to provide research and product development and manufacturing services that meet the changing needs of our customers. This requires that we successfully anticipate and respond to technological changes in design and manufacturing processes in a cost-effective and timely manner. As a result, we continually evaluate the advantages and feasibility of new product design and manufacturing processes. We cannot, however, be certain that our development efforts will be successful.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

All dollar amounts in this Item 3 are in thousands.

The Company faces limited exposure to financial market risks, including adverse movements in foreign currency exchange rates and changes in interest rates. These exposures may change over time as

**Table of Contents**

business practices evolve and could have a material adverse impact on the Company's financial results. The Company's primary exposure is related to fluctuations between the US dollar and local currencies for the Company's subsidiaries in Canada and Europe.

The Company maintains a bond investment portfolio of various issuers, types, and maturities with high credit quality issuers. Cash and cash equivalents not required for working capital purposes are primarily invested in US treasury and US government agency securities, with original maturities of six months or less. Investments having original maturities in excess of six months are stated at fair value, and are classified as available for sale. Total interest income for the period ended October 31, 2005 was \$2,033. An interest rate change of 10% would not have a material impact on the fair value of the portfolio or on future earnings.

**Item 4. *Controls and Procedures***

The Company maintains disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). The term disclosure controls and procedures means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure. It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

The Company has evaluated the effectiveness of its disclosure controls and procedures as of October 31, 2005, the end of the period covered by this Quarterly Report on Form 10-Q. This evaluation was carried out by management, with the participation of the chief executive officer and chief financial officer. Based on this evaluation, the Company's chief executive officer and chief financial officer have concluded that the Company's disclosure controls and procedures were not effective at a reasonable assurance level as of October 31, 2005 because of a material weakness in the Company's internal control over financial reporting.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the chief executive officer and chief financial officer and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A material weakness in internal control over financial reporting is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of October 31, 2005, the Company had a material weakness in its internal control over financial reporting in that it did not maintain effective controls over software revenue and related deferred revenue. Specifically, the Company's review and approval controls over the completeness and accuracy of revenue and deferred revenue under multiple-element software arrangements at its Camtronics Medical Systems, Ltd. subsidiary, which was sold by the Company subsequent to October 31, 2005, were ineffective to ensure revenues were recorded in the correct period. Please refer to Item 9A of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2005 for a further description of this material weakness in internal control over financial reporting.

As a result of this material weakness, management performed additional procedures designed to ensure that the Company's consolidated financial statements contained in this Quarterly Report on Form 10-Q are prepared in accordance with generally accepted accounting principles. Accordingly, the Company believes that the financial statements included in this Quarterly Report on Form 10-Q fairly

**Table of Contents**

present in all material respects the Company's financial condition, results of operations, and cash flows for the periods presented in accordance with generally accepted accounting principles.

The Company's management has taken significant actions to remediate the material weakness in its internal control over financial reporting as reported in Form 10-K. Summarized below are the remediation measures that the Company has initiated through October 31, 2005.

**Quarter Ended January 31, 2005**

Appointment of a President of Camtronics, succeeding the former President who left the employ of the Company.

Appointment of a Controller, replacing Camtronics' Vice President and Controller who left the employ of the Company.

All subsidiary Controllers, who formerly reported to subsidiary General Managers, also now report directly to the Company's corporate finance organization.

Detailed quarterly review of all software revenue transactions by the Company's corporate finance organization.

**Quarter Ended April 30, 2005**

Reviewed and revised, as required, Camtronics' software revenue recognition policies, procedures, and processes to ensure compliance with SOP 97-2.

Conducted periodic internal audit reviews of Camtronics' business practices and software revenue recognition policies and procedures.

Conducted software revenue recognition training for all Camtronics' personnel who have responsibility for generating, administering, and recording software revenue.

**Quarter Ended July 31, 2005**

Completed SOP 97-2 revenue contract checklists for all Camtronics' recognized system revenue transactions.

Completed revenue cycle narratives and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Matrices for Camtronics' software revenue cycles. All key controls were identified, documented, and tested during the quarters ended April 30, 2005 and July 31, 2005 to ensure internal controls functioning in compliance with stated policies and procedures.

Reviewed and revised Camtronics' customer order forms, contracts, and invoices, where required to ensure terms and conditions were aligned with the revenue recognition requirements set forth in SOP 97-2.

Reorganized Camtronics' customer contract files to ensure that all documentation is present to support each revenue transaction.

Implemented requirement that Camtronics' salespersons to sign letters representing that all terms and conditions of the order with the customer have been disclosed to the company and included in the customer file.

Implemented requirement that the President and Controller of Camtronics, on a quarterly basis, contact each customer with recognized system revenues in the quarterly period in excess of \$100,000 and complete a standardized checklist for the purpose of obtaining assurances from the customer that it has received and fully accepted all hardware, software, and other related services in accordance with the terms and conditions of the customer's order.

**Table of Contents****Quarter Ended October 31, 2005**

Implemented additional controls over the analysis of deferred revenue and the timing of revenue recognition of these amounts.

While these remediation measures have improved the design effectiveness of the internal control over financial reporting, not all of the newly designed controls were operating effectively at October 31, 2005 and not all had operated for a sufficient period of time prior to October 31, 2005 to demonstrate operating effectiveness.

There were no changes to the Company's internal control over financial reporting, other than the changes discussed above, during the first quarter ended October 31, 2005 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The certifications of the Company's chief executive officer and chief financial officer attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q include, in paragraph 4 of such certifications, information concerning the Company's disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 4 for a more complete understanding of the matters covered by such certifications.

**PART II OTHER INFORMATION****Item 2. *Unregistered Sales of Equity Securities and Use of Proceeds***

All dollar amounts in this Item 2 are in thousands, except per share data

The Company has a Key Employee Stock Option Plan dated June 11, 1998 (as amended). From August 1, 2005 through October 14, 2005, a total of 7,439 shares of common stock of the Company were issued and sold by the Company under this Plan, at an average exercise price of \$38.24 per share or \$284 in total. The Company recently discovered that none of such shares were registered under the Securities Act of 1933 and that the sales of such shares were likely made in contravention of the registration requirements of Section 5 of the Securities Act. The Company filed a registration statement on Form S-8 on October 14, 2005 covering all remaining shares issuable under such Plan.

On June 7, 2005, the Company announced that the Board of Directors had authorized the repurchase of up to \$25,000 of the Company's common stock in the public market or in privately negotiated transactions. The stock repurchase will be funded using the Company's working capital and is expected to be completed during fiscal 2006. As of October 31, 2005, the Company had not repurchased any of its common stock under this program.

**Item 6. *Exhibits***

<b>Exhibit</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended



**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ANALOGIC CORPORATION

Registrant

/s/ John W. Wood Jr.

John W. Wood Jr.

*President and Chief Executive Officer*

*(Principal Executive Officer)*

Date: December 12, 2005

/s/ John J. Millerick

John J. Millerick

*Senior Vice President,*

*Chief Financial Officer and Treasurer*

*(Principal Financial Officer)*

Date: December 12, 2005

**Table of Contents**

**EXHIBIT INDEX**

<b>Exhibit</b>	<b>Description</b>
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended