AMERICAN SCIENCE & ENGINEERING, INC.
Form 10-Q
November 07, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

OR

o 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 1-6549

American Science and Engineering, Inc.

(Exact name of Registrant as specified in its charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	**04-2240991** (I.R.S. Employer Identification No.)
829 Middlesex Turnpike **Billerica, Massachusetts** (Address of principal executive offices)	**01821** (Zip Code)

(978) 262-8700

(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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes o No x

The number of shares of the registrant s common stock, $0.66 2/3 par value, outstanding as of October 31, 2012 was 8,300,876.

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except share and per share amounts)	September 30, 2012	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 35,544	$ 24,369
Restricted cash and investments	13,986	11,707
Short-term investments, at fair value	126,174	170,834
Accounts receivable, net of allowances of $402 and $255 at September 30, 2012 and March 31, 2012, respectively	27,696	25,439
Unbilled costs and fees	2,840	3,206
Inventories, net	47,329	48,179
Prepaid expenses and other current assets	9,243	10,386
Deferred income taxes	3,329	3,329
Total current assets	266,141	297,449
Building, equipment and leasehold improvements, net	17,471	17,998
Restricted cash and investments	3,252	4,183
Deferred income taxes	5,174	5,174
Other assets, net	591	61
Total assets	$ 292,629	$ 324,865
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 6,564	$ 7,461
Accrued salaries and benefits	7,775	11,722
Accrued warranty costs	375	358
Accrued income taxes	991	
Deferred revenue	11,257	16,731
Customer deposits	21,340	15,031
Current portion of lease financing liability	1,426	1,351
Other current liabilities	8,690	5,989
Total current liabilities	58,418	58,643
Lease financing liability, net of current portion	3,661	4,403
Deferred revenue	4,453	2,913
Other long-term liabilities	96	100
Total liabilities	66,628	66,059
Stockholders equity:		
Preferred stock, no par value, 100,000 shares authorized; no shares issued		
Common stock, $0.66 2/3 par value, 20,000,000 shares authorized 8,300,876 and 8,942,793; shares issued and outstanding at September 30, 2012 and March 31, 2012, respectively	5,534	5,961

Capital in excess of par value		61,609		95,971
Accumulated other comprehensive income, net		20		16
Retained earnings		158,838		156,858
Total stockholders equity		226,001		258,806
Total liabilities and stockholders equity	$	292,629	$	324,865

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

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AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	**September 30, 2012**	**September 30, 2011**	**September 30, 2012**	**September 30, 2011**
Net sales and contract revenues:				
Net product sales and contract revenues	$ 25,084	$ 32,375	$ 50,793	$ 61,424
Net service revenues	21,169	22,403	42,804	44,457
Total net sales and contract revenues	46,253	54,778	93,597	105,881
Cost of sales and contracts:				
Cost of product sales and contracts	15,493	17,309	30,617	32,530
Cost of service revenues	9,763	12,348	20,510	24,328
Total cost of sales and contracts	25,256	29,657	51,127	56,858
Gross profit	20,997	25,121	42,470	49,023
Expenses:				
Selling, general and administrative expenses	4,895	8,379	12,893	17,637
Research and development costs	6,505	6,537	13,620	12,614
Total operating expenses	11,400	14,916	26,513	30,251
Operating income	9,597	10,205	15,957	18,772
Other income (expense):				
Interest and investment income	175	143	382	309
Interest expense	(19)	(23)	(39)	(48)
Other, net	(58)	55	(238)	(27)
Total other income	98	175	105	234
Income before provision for income taxes	9,695	10,380	16,062	19,006
Provision for income taxes	3,296	3,529	5,461	6,462
Net income	$ 6,399	$ 6,851	$ 10,601	$ 12,544
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale securities (net of tax)	40	(30)	4	(50)
Comprehensive income	$ 6,439	$ 6,821	$ 10,605	$ 12,494
Income per share - Basic	$ 0.77	$ 0.75	$ 1.23	$ 1.37
Income per share - Diluted	$ 0.76	$ 0.74	$ 1.22	$ 1.35
Weighted average shares Basic	8,364	9,148	8,609	9,170
Weighted average shares Diluted	8,418	9,232	8,662	9,285
Dividends declared per share	$ 0.50	$ 0.30	$ 1.00	$ 0.60

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

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AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended September 30, 2012	September 30, 2011
(In thousands)		
Cash flows from operating activities:		
Net income	$ 10,601	$ 12,544
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,535	2,924
Provisions for contracts, inventory and accounts receivable reserves	1,223	1,264
Amortization of bond premium	1,486	1,212
Deferred income taxes		1,170
Other	(1)	(24)
Stock compensation (credit) expense	(104)	1,204
Changes in assets and liabilities:		
Accounts receivable	(2,404)	3,059
Unbilled costs and fees	366	6,800
Inventories	(226)	(2,050)
Prepaid expenses and other assets	613	(2,845)
Accounts payable	(897)	(1,580)
Accrued income taxes	991	(1,517)
Customer deposits	6,309	9,264
Deferred revenue	(3,934)	2,425
Accrued expenses and other liabilities	(1,233)	(8,435)
Net cash provided by operating activities	15,325	25,415
Cash flows from investing activities:		
Purchases of short-term investments	(53,362)	(148,921)
Proceeds from sales and maturities of short-term investments	96,540	95,518
Purchases of property and equipment, net	(2,007)	(2,980)
Net cash provided by (used for) investing activities	41,171	(56,383)
Cash flows from financing activities:		
(Increase) decrease in restricted cash and investments	(1,348)	14,939
Proceeds from exercise of stock options	282	2,835
Repurchase of shares of common stock	(34,967)	(15,923)
Repayment of leasehold financing liability	(667)	(659)
Payment of common stock dividend	(8,621)	(5,505)
Change in income taxes paid due to the tax benefit from employee stock option expense		131
Net cash used for financing activities	(45,321)	(4,182)
Net increase (decrease) in cash and cash equivalents	11,175	(35,150)
Cash and cash equivalents at beginning of period	24,369	60,144
Cash and cash equivalents at end of period	$ 35,544	$ 24,994

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

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AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The condensed consolidated financial statements include the accounts of American Science and Engineering, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes included in the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2012, or fiscal 2012, as filed with the Securities and Exchange Commission on June 8, 2012.

The unaudited condensed consolidated financial statements, in the opinion of management, include all necessary adjustments, consisting solely of normal recurring adjustments, to present fairly the Company s financial position, results of operations and cash flows. These results are not necessarily indicative of the results to be expected for the entire year.

Nature of Operations

The Company develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security and other targeted markets. The Company provides maintenance, warranty, engineering, and training services related to these products. The Company has one reporting segment, X-ray screening products.

Significant Accounting Policies

For systems that are produced in a standard manufacturing operation and have shorter order to delivery cycles, the Company recognizes sales when title passes and when other revenue recognition criteria (such as transfer of risk and customer acceptance) are met. Revenues on cost reimbursable and custom long-term fixed price contracts are generally recorded as costs are incurred using the percentage of completion method.

Occasionally, the Company receives requests from customers to hold product being purchased for a valid business purpose. The Company recognizes revenue for such arrangements provided the transaction meets, at a minimum, the following criteria: a valid business purpose for the arrangement exists; risk of ownership of the purchased product has transferred to the buyer; there is a fixed delivery date that is reasonable and consistent with the buyer s business purpose; the product is ready for shipment; the Company has no continuing performance obligation in regards to the product and the product has been segregated from the Company s inventories and cannot be used to fill other orders received. There was no product being held under such arrangements at September 30, 2012 or March 31, 2012.

The other significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in its Form 10-K for the year ended March 31, 2012. There have been no changes to our critical accounting policies during the three and six months ended September 30, 2012.

Stock Repurchase Program

In May 2012, the Board of Directors approved a Stock Repurchase Program which authorized the Company to repurchase up to $35.0 million of shares of its common stock from time to time on the open market. On August 2, 2012, the Board of Directors announced the approval of an additional Stock Repurchase Program which authorizes the Company to repurchase up to $35 million of additional shares of its common stock from time to time on the open market or in privately negotiated transactions.

During the three months ended September 30, 2012, a total of 267,327 shares were repurchased and retired at an average price of $57.57 per share. During the six months ended September 30, 2012, a total of 651,327 shares were repurchased and retired at an average price of $53.74 per share. As of September 30, 2012, the Stock Repurchase program authorized in May 2012 was completed and the maximum dollar value of shares that may still be purchased under the August 2012 program was $35,000,000.

Dividends

	Three Months Ended		Six Months Ended	
	September 30,	**September 30,**	**September 30,**	**September 30,**
(In thousands)	**2012**	**2011**	**2012**	**2011**
Dividends declared	$ 0.50	$ 0.30	$ 1.00	$ 0.60
Dividends paid	$ 0.50	$ 0.30	$ 1.00	$ 0.60

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On November 5, 2012, the Company declared a cash dividend of $0.50 per share. The dividend will be paid on December 3, 2012 to all shareholders of record at the close of business on November 19, 2012. Future dividends will be declared at the discretion of the Board of Directors and will depend upon such factors as the Board of Directors deems relevant.

Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, restricted cash, short-term investments and accounts and unbilled receivables. At times, the Company maintains cash balances in excess of insured limits. The Company maintains its cash and cash equivalents with major financial institutions. The Company s credit risk is managed by investing its cash in investment grade corporate debentures / bonds, U.S. government agency bonds, commercial paper, U.S. treasury bills, money market funds, and certificates of deposit.

2. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards made to its employees and Board of Directors in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 718, *Compensation Stock Compensation*, which requires the measurement and recognition of all compensation costs for stock-based awards made to employees and the Board of Directors based upon fair value over the requisite service period for awards expected to vest.

The Company recognized $(362,000) and $597,000 of stock-based compensation costs (credits) in the condensed consolidated statements of operations and comprehensive income for the three months ended September 30, 2012 and September 30, 2011, respectively. The Company recognized $(104,000) and $1,204,000 of stock-based compensation costs (credits) in the condensed consolidated statements of operations and comprehensive income for the six months ended September 30, 2012 and September 30, 2011, respectively. The credits for the three and six months ended September 30, 2012 include a reversal of certain incentive compensation plan costs previously accrued for, which have been terminated as a result of the announced retirement of our Chief Executive Officer in September of 2012. The income tax (expense) benefit recognized related to the compensation costs (credits) for the six months ended September 30, 2012 and September 30, 2011 was approximately $(123,000) and $202,000, respectively. The income tax (expense) benefit recognized related to the compensation costs (credits) for the six months ended September 30, 2012 and September 30, 2011 was approximately $(35,000) and $409,000, respectively.

The following table summarizes stock-based compensation costs (credits) included in the Company s consolidated statement of operations:

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
(In thousands)	2012	2011	2012	2011
Cost of revenues	$ 86	$ 117	$ 144	$ 223
Selling, general and administrative	(448)	480	(248)	981
Total share-based compensation expense (credits) before tax	$ (362)	$ 597	$ (104)	$ 1,204

Stock Option and Other Compensation Plans

The Company has various stock option and other compensation plans for non-employee directors, officers, and employees. The Company had the following stock option and other compensation plans outstanding as of September 30, 2012: the 1995 Combination Plan, the 1997 Non-Qualified Option Plan, the 1998 Non-Qualified Option Plan, the 1999 Combination Plan, the 2000 Combination Plan, the 2002 Combination Plan, the 2003 Stock Plan for Non-Employee Directors and the 2005 Equity and Incentive Plan. There are 3,980,000 shares authorized under these plans. As of September 30, 2012, 284,000 shares remain available for future issuance under these plans. Vesting periods for awards granted under such plans are at the discretion of the Compensation Committee of the Board of Directors, or their designee, and typically range between one and three years. Options under these plans are granted at fair market value and have a term of ten years from the date of grant.

Stock Options

The following tables summarize stock option activity for the six months ended September 30, 2012:

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	Number of Shares		Weighted Average Exercise Price ($)	Weighted Average Contractual Life (years)		Aggregate Intrinsic Value
Options outstanding at March 31, 2012	376,331	$	55.10	4.59		
Grants						
Exercises	(8,071)		34.91		$	171,000
Cancellations	(10,316)		65.86			
Options outstanding at September 30, 2012	357,944	$	55.24	4.24	$	4,307,000
Options exercisable at September 30, 2012	355,329	$	55.20	4.26		

Information related to the stock options outstanding as of September 30, 2012 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)		Weighted-Average Exercise Price ($)	Exercisable Number of Shares		Exercisable Weighted-Average Exercise Price ($)
$8.00 - $20.00	20,592	1.26	$	13.53	20,592	$	13.53
$20.01 - $30.00	19,550	1.92		28.50	19,550		28.50
$30.01 - $40.00	17,629	2.17		39.06	17,629		39.06
$40.01 - $50.00	39,600	3.05		44.77	39,600		44.77
$50.01 - $60.00	76,095	2.78		53.22	76,095		53.22
$60.01 - $70.00	128,297	4.99		64.08	125,682		64.13
$70.01 - $75.82	56,181	7.92		74.87	56,181		74.87
$8.00 - $75.82	357,944	4.25	$	55.24	355,329	$	55.20

The Company deems the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of stock-based awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock-based award; (2) the expected future stock volatility over the expected term; (3) a risk-free interest rate; and (4) the expected dividend yield. The expected term represents the expected period of time the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company s common stock and the risk free interest rate is based on the U.S. Zero-Bond rate. The expected dividend yield is based on the assumption that the Company would continue paying dividends on its common stock at the same rate for the foreseeable future.

There were no options granted in the three or six month periods ended September 30, 2012 or September 30, 2011.

As of September 30, 2012, there was approximately $4,000 of unrecognized compensation costs related to options granted. This cost is expected to be recognized over a weighted average period of 1.2 years. Non-vested common stock options are subject to the risk of forfeiture until the fulfillment of specified conditions.

Restricted Stock and Restricted Stock Units

The Company has instituted long-term incentive plans for certain key employees. These plans call for the issuance of restricted stock, restricted stock options, and/or cash incentives which vest or are paid upon the achievement of certain performance-based goals as well as service time incurred. Restricted stock and restricted stock units may also be granted to other employees with vesting periods that range from one to three years. In addition, annually the Board of Directors is granted restricted stock. These restricted stock shares vest on a pro-rata basis on service time performed over a one-year period. The fair values of these restricted stock awards are equal to the market price per share of the Company s common stock on the date of grant.

Non-vested restricted stock and stock unit awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of September 30, 2012 there was $1,426,000 of total unrecognized compensation cost related to non-vested restricted stock and stock unit awards granted under the Company s stock plans. This cost is expected to be recognized over a weighted average period of less than one year.

The following table summarizes the status of the Company s non-vested restricted stock and stock unit awards for the six months ended September 30, 2012:

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	Number of Shares		Weighted Average Grant Date Fair Value ($)
Outstanding at March 31, 2012	40,599	$	68.63
Granted	18,000		60.57
Vested	(10,249)		72.18
Forfeited	(13,411)		63.93
Outstanding at September 30, 2012	34,939	$	65.24

3. INVENTORIES

Inventories consist of material, labor and manufacturing overhead and are recorded at the lower of cost, using the weighted average cost method, or net realizable value. Excess manufacturing overhead costs attributable to idle facility expenses, freight, handling costs and wasted material (spoilage) attributable to abnormally low production volumes (levels that materially differ from budgeted production plans due primarily to changes in customer demand) are excluded from inventory and recorded as an expense in the period incurred.

The components of inventories at September 30, 2012 and March 31, 2012 were as follows:

(In thousands)		September 30, 2012		March 31, 2012
Raw materials, completed sub-assemblies, and spare parts	$	22,818	$	23,689
Work-in-process		20,551		16,705
Finished goods		3,960		7,785
Total	$	47,329	$	48,179

4. INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share include the dilutive impact of options and restricted stock units using the average share price of the Company s common stock for the period. For the three months ended September 30, 2012 and September 30, 2011, common stock equivalents of 191,000 and 61,000, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive. For the six months ended September 30, 2012 and September 30, 2011, common stock equivalents of 190,000 and 57,000, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive.

	Three Months Ended				Six Months Ended			
(In thousands except per share amounts)		September 30, 2012		September 30, 2011		September 30, 2012		September 30, 2011
Income Per Share								
Basic:								
Net income	$	6,399	$	6,851	$	10,601	$	12,544

Weighted average number of common shares outstanding basic	8,364	9,148	8,609	9,170
Net income per share basic	$ 0.77	$ 0.75	$ 1.23	$ 1.37
Diluted:				
Net income	$ 6,399	$ 6,851	$ 10,601	$ 12,544
Weighted average number of common shares outstanding	8,364	9,148	8,609	9,170
Assumed exercise of stock options and restricted stock units, using the treasury stock method	54	84	53	115
Weighted average number of common and potential common shares outstanding diluted	8,418	9,232	8,662	9,285
Net income per share diluted	$ 0.76	$ 0.74	$ 1.22	$ 1.35

5. LETTERS OF CREDIT

In the normal course of business, the Company may provide certain customers and potential customers with performance guarantees, which are generally backed by standby letters of credit. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of its obligations; the probability of which management believes is low. As of September 30, 2012, the Company had outstanding $32,405,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 66% of the outstanding letters of credit, resulting in a restricted cash balance of $17,238,000 at September 30, 2012 of which $3,252,000 was considered long-term restricted cash due to the expiration date of the underlying letters of credit.

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6. FAIR VALUE MEASUREMENTS

The Company has categorized its financial assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the inputs used to measure a financial instrument fall within different levels of the hierarchy, the categorization of such financial asset is based on the lowest level input that is significant to the fair value measurement of such instrument.

Financial assets recorded on the Condensed Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 - Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date (examples include actively exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

Level 2 - Financial assets whose values are based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Inputs other than quoted prices that are observable for substantially the full term of the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s assumptions about the assumptions a market participant would use in pricing the asset or liability. The Company currently does not have any Level 3 financial assets or liabilities.

The following table presents the financial assets and liabilities the Company measures at fair value on a recurring basis, based on the fair value hierarchy as of September 30, 2012 and March 31, 2012:

(In thousands)	**September 30, 2012**	**March 31, 2012**

Level 1 Financial Assets				
U.S. Treasury bills	$		$	20,018
Level 2 Financial Assets				
Corporate debentures/bonds		81,812		78,169
Commercial paper		38,648		40,334
Government agency bonds				26,582
Certificates of deposit		5,714		5,731
Money market funds		18,658		13,698
Total Level 2 Financial Assets		144,832		164,514
Total cash equivalents and short-term investments	$	144,832	$	184,532

These investments are classified as available-for-sale and are recorded at their fair market values using the specific identification method. As of September 30, 2012, all of the Company s available-for-sale securities had contractual maturities of twelve months or less. The Company had no material realized gains or losses on its available-for-sale securities for the six months ended September 30, 2012 and September 30, 2011, respectively. The unrealized holding gains or losses on these securities are included as a component of other comprehensive income, as disclosed in the condensed consolidated statements of operations and comprehensive income.

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2012				
Short-term investments:				
Corporate debentures/bonds	$ 81,785	$ 29	$ (2)	$ 81,812
Commercial paper	38,646	2		38,648
Certificates of deposit	5,714			5,714
Total short-term investments	$ 126,145	$ 31	$ (2)	$ 126,174
Cash equivalents:				
Money market funds	$ 18,658	$	$	$ 18,658

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2012:				
Short-term investments:				
Corporate debentures/bonds	$ 78,176	$ 21	$ (28)	$ 78,169
Commercial paper	40,331	3		40,334
Government agency bonds	26,573	9		26,582
Treasury bills	20,000	18		20,018
Certificates of deposit	5,729	2		5,731
Total short-term investments	$ 170,809	$ 53	$ (28)	$ 170,834
Cash equivalents:				
Money market funds	$ 13,698	$	$	$ 13,698

7. INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes* and recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. The Company evaluates the need for a valuation allowance against its net deferred tax assets at period end based upon its three year cumulative income and its projections of future income, and records a valuation allowance against any net deferred tax assets if it is more likely than not that they will not be realized.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending March 31, 2009 through 2011 and for various state taxing authorities for the years ending March 31, 2006 through 2011. The Company believes that there were no material uncertain tax positions that required a reserve as of September 30, 2012.

8. GUARANTEES

Certain of the Company s products carry a one-year warranty, the costs of which are accrued for at the time of shipment or delivery. Accrual rates are based upon historical experience for the trailing twelve months and management s judgment of future exposure. Warranty experience for the three and six months ended September 30, 2012 and 2011 was as follows:

(In thousands)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Six Months Ended September 30, 2012	Six Months Ended September 30, 2011
Warranty accrual - beginning of period	$ 357	$ 1,114	$ 358	$ 1,225
Accruals for warranties issued during the period	154	218	277	525
Adjustment of preexisting accrual estimates	46	(25)	142	(13)
Warranty costs incurred during the period	(182)	(443)	(402)	(873)
Warranty accrual end of period	$ 375	$ 864	$ 375	$ 864

9. LEASE COMMITMENTS

In March 2005, the Company renewed its lease agreement for its corporate headquarters and manufacturing facilities in Billerica, Massachusetts. As part of the lease agreement, the Company s landlord agreed to certain renovations to the Billerica facility including the construction of additional high bay manufacturing space. The Company was responsible for a portion of the construction costs and was deemed to be the owner of the building during the construction period under FASB ASC 840, *Leases.* In January 2007, the Company amended this lease agreement to expand its lease to include the remaining available space in the building. A total of $7,182,000 was capitalized to record the facility on its books with an offsetting credit to the lease financing liability. In addition, amounts paid for construction were capitalized to fixed assets and the landlord construction allowances of $6,009,000 were recorded as additional lease financing liability.

At the completion of the construction of the initial renovations in February 2006, the lease was reviewed for potential sale-leaseback treatment in accordance with FASB ASC 840-40, *Leases Sale-Leaseback Transactions*. Based on this review, it was determined that the lease did not qualify for sale-leaseback treatment in accordance with FASB ASC 840-40. As a result, the

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building and tenant improvement and associated lease financing liabilities remain on the Company s books. The lease financing liability is being amortized over the lease term based on the payments designated in the agreement and the building and tenant improvement assets are being depreciated on a straight line basis over the lesser of their useful lives or the lease term.

10. COMMITMENTS AND CONTINGENCIES

Deferred Revenue

The Company offers extended warranty and service contracts to its customers. These contracts typically cover a period of one to five years, and include advance payments that are recorded as deferred revenue. Revenue is recognized as services are performed over the life of the contract, which represents the period over which these revenues are earned. Costs associated with these extended warranty and service contracts are expensed to cost of goods sold as incurred.

ITEM 2 MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Without limiting the foregoing, the words believes , anticipates , plans , expects , intends , should and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties, and assumptions that are difficult to predict, and you should not place undue reliance on our forward-looking statements. The factors discussed under Item 1A. Risk Factors , among others, could cause actual results to differ materially from those indicated by forward-looking statements made herein and presented elsewhere by management from time to time. We expressly disclaim any obligation to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Overview

American Science and Engineering, Inc., which is referred to in this report as we or the Company , develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security and other targeted markets. The Company provides maintenance, warranty, engineering, and training services related to these products.

Our primary technologies are Z Backscatter technology which is used to detect explosives, illegal drugs, and other contraband even when artfully concealed in complex backgrounds, and other technologies that expand the detection capability of our products beyond the material discrimination features of the Z Backscatter technology to include the penetration capability of high-energy transmission X-rays and/or other detection techniques, such as radioactive threat detection.

Net sales and contract revenues for the second quarter of fiscal year ending March 31, 2013, or fiscal 2013, decreased to $46,253,000 compared to revenues of $54,778,000 for the second quarter of fiscal 2012. We reported operating income of $9,597,000 for the second quarter of fiscal 2013 compared to $10,205,000 for the second quarter of fiscal 2012. Net income for the second quarter of fiscal 2013 was $6,399,000 ($0.76 per share, on a diluted basis) compared to net income of $6,851,000 ($0.74 per share, on a diluted basis) for the second quarter of fiscal 2012. These results represent a 16% decrease in revenues and a 7% decrease in net income when compared to results for the second quarter of fiscal 2012. Earnings per share increased by $0.02 compared to results for the second quarter of the fiscal 2012 due to a reduction in the shares outstanding resulting from the stock repurchase program.

Net sales and contract revenues for the first six months of fiscal year ending March 31, 2013, or fiscal 2013, decreased to $93,597,000 compared to revenues of $105,881,000 for the first six months of fiscal 2012. We reported operating income of $15,957,000 for the first six months of fiscal 2013 compared to $18,772,000 for the first six months of fiscal 2012. Net income for the first six months of fiscal 2013 was $10,601,000 ($1.22 per share, on a diluted basis) compared to net income of $12,544,000 ($1.35 per share, on a diluted basis) for the first six months of fiscal 2012. These results represent a 12% decrease in revenues, a 15% decrease in net income, and a $0.13 decrease in earnings per share when compared to results for first six months of fiscal 2012.

Critical Accounting Policies

We believe that several accounting policies are important to understanding our historical and future performance. We refer to these policies as critical because these specific areas generally require us to make judgments and estimates about matters that are uncertain at the time we make the estimate, and different estimates which also would have been reasonable could have been used, which would have resulted in different financial results.

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The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2012 are policies related to revenue recognition, inventories and related allowances for obsolete and excess inventory, and income taxes. It is important that the discussion of our operating results that follows be read in conjunction with the critical accounting policies disclosed in our Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on June 8, 2012. There have been no changes to our critical accounting policies during the three and six months ended September 30, 2012.

Results of Operations

Unless otherwise indicated, discussion of results for the three- and six-month periods ended September 30, 2012, is based on a comparison with the corresponding period of 2011

Net revenues for the second quarter of fiscal 2013 decreased by $8,525,000 to $46,253,000 compared to the revenues of $54,778,000 for the corresponding prior period. This decrease is attributable primarily to a decrease of $7,291,000 in product sales and contract revenues from the prior period. This decrease was due primarily to a decrease of $8,033,000 in Z Backscatter system revenues attributable to a lower volume of systems delivered as well as a 21% reduction in the average sales price from the prior period due to the mix of options sold with these systems compared to the prior year. In addition there was a decrease of $1,113,000 in Parcel and Personnel Inspection system revenues due to one multi-unit order fulfilled in the second quarter of fiscal 2012 which was not repeated in the current year. These decreases were offset in part by an increase of $2,371,000 in Cargo Inspection system revenues as compared to the corresponding prior year period due to an increase in the number of systems accepted in the period as compared to the prior period. Contract research and development and aftermarket parts revenues remained relatively flat as compared to the prior period. Service revenues decreased by $1,234,000 to $21,169,000 compared to the second quarter of fiscal 2012 due primarily to a decrease in fixed price service contract revenue from the prior year.

Net revenues for the first six months of fiscal 2013 decreased by $12,284,000 to $93,597,000 compared to the revenues of $105,881,000 for the corresponding prior period. This decrease is attributable primarily to a decrease of $10,631,000 in product sales and contract revenues from the prior period. This decrease was due primarily to a decrease of $12,796,000 in Parcel and Personnel Inspection system revenues. In the first six months of fiscal 2012, the Company fulfilled one large multi-unit Parcel and Personnel Inspection system order which was not repeated in fiscal 2013. In addition, Z Backscatter system revenues decreased $7,753,000 from the prior year due primarily to a lower volume of systems delivered. The average price per system of the Z Backscatter systems remained relatively flat on a year to date basis. This decrease was offset by an increase of $10,243,000 in Cargo Inspection system revenues as compared to the corresponding prior year period due to an increase in the number of systems accepted in the period as compared to the prior period. Contract research and development and aftermarket parts revenues remained relatively flat as compared to the prior period. Service revenues decreased by $1,653,000 to $42,804,000 compared to the prior period due primarily to a decrease in fixed price service contract revenue from the prior year.

Total cost of sales and contracts for the second quarter of fiscal 2013 decreased by $4,401,000 to $25,256,000 as compared to the corresponding period a year ago. Cost of sales and contracts related to product revenues decreased by $1,816,000 to $15,493,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 62% of revenues versus 53% of revenues for the corresponding period in the prior year. The resultant decrease in gross margin percentage from the prior year is due primarily to $1.1 million of accruals for product maintenance costs in the quarter, $0.6 million in write-downs of equipment held in inventory to a lower of cost or net realizable value and increased costs on one multi-unit order delivered in a new market. The cost of service revenues for the quarter ended September 30, 2012 decreased by $2,585,000 to $9,763,000 as compared to the corresponding period a year ago. Cost of service revenues decreased to 46% of revenues from 55% of revenues in the corresponding period due primarily to a reduction in third party services required to support systems under contract during the period.

Total cost of sales and contracts for the first six months of fiscal 2013 decreased by $5,731,000 to $51,127,000 as compared to the corresponding period a year ago. Cost of sales and contracts related to product revenues decreased by $1,913,000 to $30,617,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 60% of revenues versus 53% of revenues for the corresponding period in the prior year. The resultant decrease in gross margin percentage from the prior year is due primarily to $1.1 million of accruals for product maintenance costs, $0.8 million in loss accruals provided for during the year on certain long-term contracts, and $0.6 million expensed for the write-down of certain equipment held in inventory to a lower of cost or net realizable value. The cost of service revenues for the quarter ended September 30, 2012 decreased by $3,818,000 to $20,510,000 as compared to the corresponding period a year ago. Cost of service revenues decreased to 48% of revenues from 55% of revenues in the corresponding period due primarily to a reduction in third party services required to support systems under contract during the period.

Selling, general and administrative expenses for the second quarter of fiscal 2013 decreased by $3,484,000 to $4,895,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 11% of revenues in the current period compared to 15% for the corresponding period in the prior year. The decrease in selling, general and administrative expenses from the prior period was primarily the result of a decrease in incentive compensation expense of

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$3,019,000 related to the reversal of certain long term incentive accruals for the President and Chief Executive Officer who announced his retirement during the quarter as well as a reduction in the number of senior executives receiving long-term incentive compensation benefits as compared to the prior year. In addition, there was a decrease in payroll and payroll-related costs of $195,000 attributable to decreased headcount.

Selling, general and administrative expenses for the first six months of fiscal 2013 decreased by $4,744,000 to $12,893,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 14% of revenues in the current period compared to 17% for the corresponding period in the prior year. The decrease in selling, general and administrative expenses from the prior period was the result of a decrease in incentive compensation expense of $3,571,000 related primarily to the reversal of certain long term incentive accruals for the President and Chief Executive Officer who announced his retirement during the quarter as well as a reduction in the number of senior executives receiving long-term incentive compensation benefits as compared to the prior year. In addition, there was a decrease in payroll and payroll-related costs of $254,000 attributable to decreased headcount and a decrease of $300,000 in travel related expenses.

Company funded research and development expenses for the second quarter of fiscal 2013 decreased by $32,000 to $6,505,000 as compared to the corresponding period a year ago. Research and development expenses represented 14% of revenues in the current quarter compared to 12% for the corresponding period in the prior year. Research and development activities performed in the quarter focused on the development of new products, product options and product enhancements.

Company funded research and development expenses for the first six months of fiscal 2013 increased by $1,006,000 to $13,620,000 as compared to the corresponding period a year ago. Research and development expenses represented 15% of revenues in the current period compared to 12% for the corresponding period in the prior year. Research and development expenses increased as compared to the prior period due to an increase in labor resources focused on research and development programs and an increase in subcontracted engineering services during the period which related primarily to one current research and development program. Research and development activities performed in the period focused on the development of new products, product options and product enhancements.

Other income (expense) was $98,000 of income for the second quarter of fiscal 2013 as compared to $175,000 of income for the corresponding period a year ago.

Other income (expense) was $105,000 of income for the first six months of fiscal 2013 as compared to $234,000 of income for the corresponding period a year ago.

We reported pre-tax income of $9,695,000 in the second quarter of fiscal 2013 as compared to pre-tax income of $10,380,000 in the corresponding period due to the factors described above.

We reported pre-tax income of $16,062,000 in the first six months of fiscal 2013 as compared to pre-tax income of $19,006,000 in the corresponding period due to the factors described above.

Our effective tax rate remained constant at 34% for both the three and six months ended September 30, 2012 and for the corresponding period a year ago.

We had net income of $6,399,000 for the second quarter of fiscal 2013 as compared to net income of $6,851,000 in the second quarter of fiscal 2012. We had net income of $10,601,000 for the first six months of fiscal 2013 as compared to net income of $12,544,000 in the second quarter of fiscal 2012. The significant factors contributing to these results are noted in the above sections.

Liquidity and Capital Resources

Our sources of capital include, but are not limited to, our cash flows from operations and cash received from stock issuances related to option exercises. We believe that our operating cash flows and cash and investments on hand are sufficient to fund our working capital requirements, capital expenditures, income tax obligations, dividends to our shareholders and performance guarantee collateralizations for the foreseeable future and also to fund stock repurchases as desired.

Summary of Cash Activities

Cash and cash equivalents increased by $11,175,000 to $35,544,000 at September 30, 2012 compared to $24,369,000 at March 31, 2012. This increase is attributable primarily to:

1) net income of $10,601,000 for the period adjusted for $5,139,000 in non-cash expenditures which included depreciation expense, stock based compensation, amortization of bond premiums, contract losses and inventory and accounts receivable reserves;

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2) net proceeds from sales and maturities of short-term investments of $43,178,000; and

3) an increase of $6,309,000 in customer deposits during the period due to the timing of milestone payments on certain fixed price contracts.

Offsetting these inflows were cash outflows including:

1) the repurchase of 651,327 shares of the Company s common stock for $34,967,000 during the period;

2) the payment of $8,621,000 in common stock dividends during the year as part of our quarterly dividend program;

3) a decrease in deferred revenue of $3,934,000 due to the timing of invoicing on certain service agreements;

4) a net increase of $1,348,000 in restricted cash and investments due to an increase in the amount of outstanding letters of credit; and

5) net capital expenditures of $2,007,000 during the period attributable primarily to software and equipment purchases, and leasehold improvements made during the period.

In the normal course of business, we may provide certain customers and potential customers with performance guarantees, which are generally backed by standby letters of credit. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations; the probability of which management believes is low. As of September 30, 2012, we had outstanding $32,405,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 66% of the outstanding letters of credit, resulting in a restricted cash balance of $17,238,000 at September 30, 2012 of which $3,252,000 was considered long-term restricted cash due to the expiration date of the underlying letters of credit.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in the quantitative and qualitative information about market risk since the end of our most recent fiscal year. For further information, see Item 7A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2012, as filed with the Securities and Exchange Commission on June 8, 2012.

ITEM 4 CONTROLS AND PROCEDURES

a) Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the Company reviewed and evaluated the effectiveness of the Company s disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as amended (the Exchange Act). Based upon their evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports filed and submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and to provide reasonable assurance that information required to be disclosed by the Company in such reports 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.

b) Changes in internal control over financial reporting

There have been no changes in our internal control over financial reporting as such term is defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1A RISK FACTORS

You should carefully review and consider the information regarding certain factors which could materially affect our business, financial condition or future results set forth under Item 1A. Risk Factors in our Form 10-K for the fiscal year ended March 31, 2012 as filed with the Securities and Exchange Commission on June 8, 2012. There have been no material changes from the factors disclosed in our Form 10-K for the year ended March 31, 2012, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about our purchases during the quarter ended September 30, 2012 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

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Quarter ended September 30, 2012	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs (1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
July 1 July 31	172,100	$ 56.74	172,100	$ 5,625,000
August 1 August 31 (1)	95,227	59.06	95,227	35,000,000
September 1 September 30				35,000,000
Total	267,327	$ 57.57	267,327	

(1) On August 2, 2012, the Board of Directors announced the approval of a new Stock Repurchase Program which authorized the Company to purchase up to $35 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. This Stock Repurchase Program has no specified expiration date.

ITEM 6 EXHIBITS

The exhibits listed on the Exhibit Index immediately following the signature page to this Quarterly Report on Form 10-Q are incorporated herein by reference, and are filed or furnished as part of this Quarterly Report on Form 10-Q.

The information required by Exhibit Item 11 (Statement re: Computation of Income per Common and Common Equivalent Share) may be found in Note 4 to the Unaudited Condensed Consolidated Financial Statements in this quarterly report.

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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 hereunto duly authorized.

AMERICAN SCIENCE AND ENGINEERING, INC.

Date: November 7, 2012

/s/ Kenneth J. Galaznik
Kenneth J. Galaznik
Senior Vice President, Chief Financial Officer, and Treasurer
(Principal Financial Officer)

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EXHIBIT INDEX

Exhibit Number	Description of Exhibits
10.1	Form of Short Term Incentive Bonus Plan Document for fiscal year 2013
10.2	Amendment to Employment Agreement between the Company and Anthony Fabiano dated September 17, 2012
31.1	Certification by Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following financial information from American Science and Engineering Inc. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in XBRL (eXtensible Business Reporting Language) includes: (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and six months ended September 30, 2012 and 2011, (ii) Condensed Consolidated Balance Sheets at September 30, 2012 and March 31, 2012, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.