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 December 31, 2014

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 February 2, 2015 was 7,387,076.

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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)		**December 31, 2014**		**March 31, 2014**
Assets				
Current assets:				
Cash and cash equivalents	$	45,731	$	62,143
Restricted cash and investments		12,226		14,603
Short-term investments, at fair value		60,669		88,649
Accounts receivable, net of allowances of $361 and $323 at December 31, 2014 and March 31, 2014, respectively		26,780		34,317
Unbilled costs and fees		3,365		2,491
Inventories, net		42,788		32,935
Prepaid expenses and other current assets		11,289		5,459
Deferred income taxes		2,555		4,775
Total current assets		205,403		245,372
Building, equipment and leasehold improvements, net		9,603		12,969
Restricted cash and investments		208		313
Deferred income taxes		6,545		6,318
Other assets, net		1,033		539
Total assets	$	222,792	$	265,511
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	6,750	$	10,618
Accrued salaries and benefits		7,008		10,805
Accrued warranty costs		182		404
Accrued income taxes				2,338
Deferred revenue		11,867		10,934
Customer deposits		18,901		16,589
Current portion of lease financing liability		832		1,511
Other current liabilities		5,636		9,292
Total current liabilities		51,176		62,491
Lease financing liability, net of current portion		186		1,404
Deferred revenue		1,227		3,941
Other long-term liabilities		38		280
Total liabilities		52,627		68,116
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; 7,547,897 and 7,884,015 shares issued and outstanding at December 31, 2014 and March 31, 2014, respectively		5,031		5,255
Capital in excess of par value		20,113		35,236

Accumulated other comprehensive income (loss), net		(32)		13
Retained earnings		145,053		156,891
Total stockholders equity		170,165		197,395
Total liabilities and stockholders equity	$	222,792	$	265,511

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)

(In thousands, except per share amounts)	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013	Nine Months Ended December 31, 2014	Nine Months Ended December 31, 2013
Net sales and contract revenues:				
Net product sales and contract revenues	$ 24,822	$ 23,164	$ 59,077	$ 66,652
Net service revenues	12,158	14,609	36,506	58,021
Total net sales and contract revenues	36,980	37,773	95,583	124,673
Cost of sales and contracts:				
Cost of product sales and contracts	14,040	12,803	32,869	39,697
Cost of service revenues	5,833	8,102	19,455	29,755
Total cost of sales and contracts	19,873	20,905	52,324	69,452
Gross profit	17,107	16,868	43,259	55,221
Expenses:				
Selling, general and administrative expenses	7,627	8,396	24,936	22,718
Research and development costs	5,668	6,139	18,092	15,725
Total operating expenses	13,295	14,535	43,028	38,443
Operating income	3,812	2,333	231	16,778
Other income (expense):				
Interest and investment income	54	107	219	276
Interest expense	(4)	(13)	(23)	(42)
Other, net	(32)	(83)	(284)	(226)
Total other income (expense)	18	11	(88)	8
Income before provision for income taxes	3,830	2,344	143	16,786
Provision for income taxes	1,276	786	41	5,624
Net income	$ 2,554	$ 1,558	$ 102	$ 11,162
Other comprehensive income:				
Unrealized gain (loss) on available for sale securities (net of tax)	(16)	(10)	(45)	24
Comprehensive income	$ 2,538	$ 1,548	$ 57	$ 11,186
Income per share - Basic	$ 0.32	$ 0.20	$ 0.01	$ 1.42
Income per share - Diluted	$ 0.32	$ 0.20	$ 0.01	$ 1.41
Weighted average shares Basic	7,789	7,850	7,866	7,837
Weighted average shares Diluted	7,796	7,889	7,877	7,873
Dividends declared per share	$ 0.50	$ 0.50	$ 1.50	$ 1.50

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 Nine Months Ended December 31, 2014	For the Nine Months Ended December 31, 2013
(In thousands)		
Cash flows from operating activities:		
Net income	$ 102	$ 11,162
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Depreciation and amortization	3,624	3,942
Provisions for contracts, inventory and accounts receivable reserves	(237)	1,233
Amortization of bond premium	713	1,192
Deferred income taxes	1,993	1,894
Stock compensation expense	2,266	1,527
Changes in assets and liabilities:		
Accounts receivable	7,500	5,952
Unbilled costs and fees	(874)	2,391
Inventories	(9,138)	(3,392)
Prepaid expenses and other assets	(6,324)	1,432
Accounts payable	(3,868)	542
Accrued income taxes	(2,338)	(2,094)
Customer deposits	2,312	16,932
Deferred revenue	(1,781)	(6,472)
Accrued expenses and other liabilities	(7,917)	(6,181)
Net cash (used for) provided by operating activities	(13,967)	30,060
Cash flows from investing activities:		
Purchases of short-term investments	(29,211)	(47,805)
Proceeds from sales and maturities of short-term investments	56,433	68,755
Purchases of property and equipment, net	(1,668)	(1,463)
Net cash provided by investing activities	25,554	19,487
Cash flows from financing activities:		
Decrease (increase) in restricted cash and investments	2,482	(1,633)
Proceeds from exercise of stock options	888	2,889
Repurchase of shares of common stock	(18,799)	(12,306)
Repayment of leasehold financing liability	(928)	(1,115)
Payment of common stock dividend	(11,948)	(11,749)
Increase (reduction) of income taxes due to the tax benefit from employee stock option expense	306	(86)
Net cash used for financing activities	(27,999)	(24,000)
Net (decrease) increase in cash and cash equivalents	(16,412)	25,547
Cash and cash equivalents at beginning of period	62,143	40,418
Cash and cash equivalents at end of period	$ 45,731	$ 65,965

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, 2014, or fiscal 2014, as filed with the Securities and Exchange Commission on June 6, 2014.

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, force protection, and other critical defense applications. 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 December 31, 2014 or March 31, 2014.

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, 2014. There have been no changes to the Company s critical accounting policies during the nine months ended December 31, 2014.

Stock Repurchase Program

On May 7, 2013, the Board of Directors announced the approval of its fifth Stock Repurchase Program which authorized the Company to repurchase up to an additional $35 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. On December 1, 2014, the Board of Directors announced an expansion of this stock repurchase program increasing the program authorization to $50 million of shares of its common stock.

During the nine months ended December 31, 2014, the Company repurchased 383,471 shares of its common stock at an average price of $49.02. As of December 31, 2014, the remaining balance available under the Stock Repurchase Program was $31,183,000.

Dividends

	Three Months Ended		Nine Months Ended	
(In thousands)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Dividends declared	$ 0.50	$ 0.50	$ 1.50	$ 1.50
Dividends paid	$ 0.50	$ 0.50	$ 1.50	$ 1.50

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On February 5, 2015, the Company declared a cash dividend of $0.50 per share. The dividend will be paid on March 3, 2015 to all shareholders of record at the close of business on February 17, 2015. 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.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services transferred to its customers. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The guidance is effective for the interim and annual periods beginning on or after December 15, 2016 (early adoption is not permitted). The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In January 2015 the FASB issued ASU No. 2015-01, *Income Statement Extraordinary and Unusual Items,* which eliminates from U.S. GAAP the concept of extraordinary items. Entities may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect on the Company s consolidated financial statements.

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 $496,000 and $886,000 of stock-based compensation costs for the three months ended December 31, 2014 and December 31, 2013, respectively. The Company recognized $2,266,000 and $1,527,000 of stock-based compensation costs for the nine months ended December 31, 2014 and December 31, 2013, respectively. The income tax benefit recognized related to the compensation costs for the three months ended December 31, 2014 and December 31, 2013 was approximately $223,000 and $297,000, respectively. The income tax benefit recognized related to the compensation costs for the nine months ended December 31, 2014 and December 31, 2013 was approximately $816,000 and $512,000, respectively.

The following table summarizes stock-based compensation costs included in the Company s consolidated statements of operations and comprehensive income:

	Three Months Ended		Nine Months Ended	
(In thousands)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Cost of revenues	$ 124	$ 329	$ 647	$ 546
Selling, general and administrative	372	557	1,619	981
Total share-based compensation expense before tax	$ 496	$ 886	$ 2,266	$ 1,527

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Stock Option and Other Compensation Plans

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company had the following stock plans outstanding as of December 31, 2014: the 2002 Combination Plan, the 2003 Stock Plan for Non-Employee Directors, the 2005 Equity and Incentive Plan and the 2014 Equity and Incentive Plan. There are 513,000 shares remaining available for issuance under these plans. Vesting periods are at the discretion of the Board of Directors and typically range from one to 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 nine months ended December 31, 2014:

	Number of Shares		Weighted Average Exercise Price ($)	Weighted Average Contractual Life (years)		Aggregate Intrinsic Value
Options outstanding at March 31, 2014	224,964	$	62.75	3.57		
Grants						
Exercises	(22,224)	$	39.90		$	588,370
Cancellations	(5,306)	$	54.90			
Options outstanding at December 31, 2014	197,434	$	65.53	3.09		
Options exercisable at December 31, 2014	197,434					

Information related to the stock options outstanding as of December 31, 2014 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)		Weighted-Average Exercise Price ($)	Exercisable Number of Shares		Exercisable Weighted-Average Exercise Price ($)
$ 46.68-$60.00	32,533	0.78	$	52.66	32,533	$	52.66
$ 60.01-$75.82	164,901	3.55	$	68.07	164,901	$	68.07
$ 46.68-$75.82	197,434	3.09	$	65.53	197,434	$	65.53

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 that 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 nine month periods ended December 31, 2014 or December 31, 2013.

As of December 31, 2014, there was no remaining unrecognized compensation cost related to options granted.

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 units, 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 non-employee directors are granted restricted stock. Restricted stock shares granted to our non-employee directors vest on a pro-rata basis, based on service time performed over a one-year period. The fair values of the restricted stock and restricted stock unit awards are equal to the market price per share of the Company s common stock on the date of grant.

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Non-vested restricted stock and restricted stock unit awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of December 31, 2014, there was $3,641,000 of total unrecognized compensation costs related to non-vested restricted stock and restricted stock unit awards granted under the Company s stock plans. These costs are expected to be recognized over a weighted average period of 1.2 years.

The following table summarizes the status of the Company s non-vested restricted stock and restricted stock unit awards for the nine months ended December 31, 2014:

	Number of Shares	Weighted Average Grant Date Fair Value ($)
Outstanding at March 31, 2014	72,000	$ 61.30
Granted	65,150	63.80
Vested	(29,814)	60.92
Forfeited	(9,675)	62.12
Outstanding at December 31, 2014	97,661	$ 63.01

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 December 31, 2014 and March 31, 2014 were as follows:

(In thousands)	December 31, 2014	March 31, 2014
Raw materials, completed sub-assemblies, and spare parts	$ 20,463	$ 18,482
Work-in-process	18,579	13,199
Finished goods	3,746	1,254
Total	$ 42,788	$ 32,935

4. INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings per common share is computed by dividing distributed and undistributed earnings to common stockholders by the weighted average number of shares of common stock outstanding during the period. Share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus are included in the calculation of basic earnings per share under the two-class method. 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 December 31, 2014 and December 31, 2013, common stock equivalents of 244,000 and 83,000 shares, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive. For the nine months ended December 31, 2014 and December 31, 2013, common stock equivalents of 209,000 and 159,000 shares, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive.

	Three Months Ended		Nine Months Ended	
(In thousands except per share amounts)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Income Per Share				
Basic:				
Net income	$ 2,554	$ 1,558	$ 102	$ 11,162
Less: Distributed and undistributed earnings to unvested restricted stock units	(27)	(12)	(4)	(24)
Distributed and undistributed earnings to common shareholders Basic	2,527	$ 1,546	98	$ 11,138
Weighted average number of common shares outstanding basic	7,789	7,850	7,866	7,837
Net income per share basic	$ 0.32	$ 0.20	$ 0.01	$ 1.42
Diluted:				
Weighted average number of common shares outstanding basic	7,789	7,850	7,866	7,837
Add dilutive effect of potential common shares	7	39	11	36
Weighted average number of common and potential common shares outstanding diluted	7,796	7,889	7,877	7,873
Net income per share diluted	$ 0.32	$ 0.20	$ 0.01	$ 1.41

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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 December 31, 2014, the Company had outstanding $22,581,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 77% of the outstanding letters of credit, resulting in restricted cash and investments balance of $12,434,000 at December 31, 2014, of which $208,000 was considered long-term restricted cash and investments due to the expiration date of the underlying letters of credit.

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 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 that the Company measures at fair value on a recurring basis, based on the fair value hierarchy as of December 31, 2014 and March 31, 2014:

(In thousands)	December 31, 2014	March 31, 2014
Level 1 Financial Assets		
Money market funds	$ 15,451	$ 33,623
Treasury bills	17,707	17,722
Total Level 1 Financial Assets	33,158	51,345
Level 2 Financial Assets		
Corporate debentures/bonds	28,338	41,424
Commercial paper		6,193
Government agency bonds	14,624	26,660
Total Level 2 Financial Assets	42,962	74,277
Total cash equivalents and short-term investments	$ 76,120	$ 125,622

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These investments are classified as available-for-sale and are recorded at their fair market values using the specific identification method. As of December 31, 2014, all of the Company s available-for-sale securities had contractual maturities of twenty-one months or less. The Company had no material realized gains or losses on its available-for-sale securities for the three and nine months ended December 31, 2014 and December 31, 2013, 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.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014:				
Short-term investments:				
Corporate debentures/bonds	$ 28,370	$	$ (32)	$ 28,338
Government agency bonds	14,623	1		14,624
Treasury bills	17,701	6		17,707
Total short-term investments	$ 60,694	$ 7	$ (32)	$ 60,669
Cash equivalents:				
Money market funds	$ 15,451	$	$	$ 15,451
Total cash equivalents	$ 15,451	$	$	$ 15,451

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2014:				
Short-term investments:				
Corporate debentures/bonds	$ 38,076	$ 9	$ (11)	$ 38,074
Commercial paper	6,193			6,193
Government agency bonds	26,652	10	(2)	26,660
Treasury bills	17,708	14		17,722
Total short-term investments	$ 88,629	$ 33	$ (13)	$ 88,649
Cash equivalents:				
Money market funds	$ 33,623	$	$	$ 33,623
Corporate debentures/bonds	3,350			3,350
Total cash equivalents	$ 36,973	$	$	$ 36,973

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, 2012 through 2014 and by various state taxing authorities for the years ending March 31, 2008 through 2014.

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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 nine months ended December 31, 2014 and 2013 was as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Warranty accrual - beginning of period	$ 186	$ 345	$ 404	$ 397
Accruals for warranties issued during the period	99	182	184	410
Adjustment of preexisting accrual estimates	(42)		(202)	(66)
Warranty costs incurred during the period	(61)	(101)	(204)	(315)
Warranty accrual end of period	$ 182	$ 426	$ 182	$ 426

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 building and tenant improvement and associated lease financing liabilities remain on the Company s books. The lease financing liability is being amortized over the original 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.

In October 2014, the Company entered into an amendment to the lease agreement for the Billerica facilities extending the term of the lease through February 28, 2023 with an adjusted rent schedule commencing October 1, 2014.

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 referred to 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. develops and manufactures X-ray inspection systems for homeland security, force protection and other critical defense applications. We provide maintenance, warranty, engineering, and training related to these products.

Our primary technologies are Z Backscatter technology, which is used to detect explosives, illegal drugs, and other contraband even when 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 for dense cargos and/or other detection techniques.

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During the nine months ended December 31, 2014, we implemented a workforce reduction of approximately 10% and targeted cost reduction initiatives. Costs related to these initiatives were recorded during the second quarter of fiscal 2015 and we began to realize the benefit of these cost saving measures in the third quarter of fiscal 2015.

Net sales and contract revenues for the third quarter of fiscal year ending March 31, 2015, or fiscal 2015, decreased to $36,980,000 compared to revenues of $37,773,000 for the third quarter of fiscal 2014. We reported operating income of $3,812,000 for the third quarter of fiscal 2015 compared to operating income of $2,333,000 for the third quarter of fiscal 2014. Net income for the third quarter of fiscal 2015 was $2,554,000 ($0.32 per share, on a diluted basis) compared to net income of $1,558,000 ($0.20 per share, on a diluted basis) for the third quarter of fiscal 2014. These results represent a 2% decrease in revenues, a 64% increase in net income and a $0.12 increase in earnings per share when compared to results for the third quarter of fiscal 2014.

Net sales and contract revenues for the first nine months of fiscal 2015 decreased to $95,583,000 compared to revenues of $124,673,000 for the first nine months of fiscal 2014. We reported operating income of $231,000 for the first nine months of fiscal 2015 compared to operating income of $16,778,000 for the first nine months of fiscal 2014. Net income for the first nine months of fiscal 2015 was $102,000 ($0.01 per share, on a diluted basis) compared to net income of $11,162,000 ($1.41 earnings per share, on a diluted basis) for the first nine months of fiscal 2014. These results represent a 23% decrease in revenues, a 99% decrease in net income and a $1.40 decrease in earnings per share when compared to results for the first nine months of fiscal 2014.

The following table presents net sales and contract revenues by product and service categories:

	Three Months Ended		Nine Months Ended	
(In thousands)	**December 31, 2014**	**December 31, 2013**	**December 31, 2014**	**December 31, 2013**
Cargo Inspection Systems	$ 8,577	$ 9,619	$ 21,758	$ 32,148
Mobile Cargo Inspection Systems	10,792	6,912	25,127	20,154
Parcel and Personnel Screening Inspection Systems	3,016	4,438	5,315	8,379
Other product sales and contract revenue	2,437	2,195	6,877	5,971
Total net product sales and contract revenues	24,822	23,164	59,077	66,652
Net service revenues	12,158	14,609	36,506	58,021
Total net sales and contract revenues	$ 36,980	$ 37,773	$ 95,583	$ 124,673

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.

The critical accounting policies we identified in our most recent Annual Report on Form 10-K for the fiscal year ended March 31, 2014 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 6, 2014. There have been no changes to our critical accounting policies during the three month period ended December 31, 2014.

Results of Operations

Net sales and contract revenues for the third quarter of fiscal 2015 decreased by $793,000 to $36,980,000 compared to the net sales and contract revenues of $37,773,000 for the corresponding period in the prior fiscal year. Product sales and contract revenues increased by $1,658,000 from the prior year due to an increase of $3,880,000 in Mobile Cargo Inspection Systems revenues as shipments delayed in prior quarters due to political unrest in certain destination locations were delivered in the period. These increases were partially offset by decreases of $1,042,000 in Cargo Inspection Systems revenues from the prior quarter and decreases of $1,422,000 in Parcel and Personnel Inspection Systems revenues. Net service revenues decreased by $2,451,000 to $12,158,000 compared to the third quarter of fiscal 2014 due primarily to the reduction in the number of systems under support contracts as a result of the withdrawal of U.S. forces from Iraq and Afghanistan. Additionally, certain of these contracts have shifted from full service, fixed price contracts to variable labor only contracts resulting in lower revenue.

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Net sales and contract revenues for the nine months of fiscal 2015 decreased by $29,090,000 to $95,583,000 compared to the net sales and contract revenues of $124,673,000 for the corresponding period in the prior fiscal year. Product sales and contract revenues decreased by $7,575,000 from the prior year due to a decrease in Cargo Inspection Systems revenues of $10,390,000 due to the completion in the prior year of a large, multi-unit order for the U.S. Government and a decrease in Parcel and Personnel Inspection System revenues of $3,064,000 due to lower unit volume. This decrease was offset in part by an increase of $4,973,000 in Mobile Cargo Inspection Systems revenues resulting from increased units delivered. Net service revenues decreased by $21,515,000 to $36,506,000 compared to the first nine months of fiscal 2014 due primarily to the reduction in the number of systems under support contracts as a result of the withdrawal of U.S. forces from Iraq and Afghanistan. Additionally, certain of these contracts have shifted from full service, fixed price contracts to variable labor only contracts resulting in lower revenue.

Total cost of sales and contract revenues for the third quarter of fiscal 2015 decreased by $1,032,000 to $19,873,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues increased by $1,237,000 to $14,040,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 57% of revenues versus 55% of revenues for the corresponding period in the prior year. This resultant decline in product gross margin percentage was primarily the result of a lower average sale price for systems delivered as compared to the prior period and higher costs on certain installations performed in the current quarter. The cost of service revenues for the third quarter of fiscal 2015 decreased by $2,269,000 to $5,833,000 as compared to the corresponding period a year ago. Cost of service revenues decreased to 48% of revenues from 56% of revenues in the corresponding period. The increase in service gross margins in the third quarter of fiscal 2015 is attributable primarily to reduced labor costs to support systems under contract as compared to the prior period.

Total cost of sales and contract revenues for the first nine months of fiscal 2015 decreased by $17,128,000 to $52,324,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues decreased by $6,828,000 to $32,869,000 as compared to the corresponding period a year ago. Cost of product sales and contract revenues represented 56% of revenues versus 60% of revenues for the corresponding period in the prior year. The resultant increase in product gross margin percentage from the corresponding prior period is due primarily to improved performance on certain Cargo Inspection System programs. The cost of service revenues for the first nine months of fiscal 2015 decreased by $10,300,000 to $19,455,000 as compared to the corresponding period a year ago. Cost of service revenues increased to 53% of revenues from 51% of revenues in the corresponding period. The decline in gross margin percentage in the first nine months of fiscal 2015 as compared to the corresponding prior period is attributable to $546,000 in costs accrued in the second quarter related to the contract default by a subcontractor and an increase in labor costs as a percentage of revenue to support systems under contract.

Selling, general and administrative expenses for the third quarter of fiscal 2015 decreased by $769,000 to $7,627,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 21% of revenues in the current period compared to 22% for the corresponding period in the prior year. The decrease in selling, general and administrative expenses from the prior year period was primarily the result of a decrease as compared to the corresponding prior period in incentive compensation expense of $1,035,000 and a decrease in payroll and payroll related costs of $478,000 on decreased headcount offset in part by an increase in legal expenses of $502,000 related to intellectual property and other contract related matters.

Selling, general and administrative expenses for the first nine months of fiscal 2015 increased by $2,218,000 to $24,936,000 as compared to the corresponding period a year ago. Selling, general and administrative expenses represented 26% of revenues in the current period compared to 18% for the corresponding period in the prior year. The increase in selling, general and administrative expenses from the prior year period was primarily the result of an increase in legal costs of $724,000 related to intellectual property and other contract related matters, an increase in marketing related expenses of $496,000 related to the launch of our new MINI Z product as well as an increase in proposal related efforts during the period, an increase in incentive compensation expense of $361,000, an increase in travel related expenses of $205,000, and an increase in consulting expenses of $348,000 as compared to the prior year.

Company funded research and development expenses for the third quarter of fiscal 2015 decreased by $471,000 to $5,668,000 as compared to the corresponding period a year ago. Research and development expenses represented 15% of revenues in the current quarter compared to 16% for the corresponding period in the prior year. Research and development expenses decreased as compared to the prior year period due primarily to lower engineering labor expenses due to the workforce reduction effected at the end of the second quarter.

Company funded research and development expenses for the first nine months of fiscal 2015 increased by $2,367,000 to $18,092,000 as compared to the corresponding period a year ago. Research and development expenses represented 19% of revenues in the first nine months of fiscal 2015 compared to 13% for the corresponding period in the prior year. Research and development expenses increased as compared to the prior year period as engineering resources devoted to the completion of a significant custom-build revenue program at an international port during the prior year, returned to research and development activities, and our average engineering headcount had also increased as compared to the corresponding prior year

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period. The Company effected a workforce reduction at the end of the second quarter of fiscal 2015 to reduce engineering labor costs which resulted in additional research and development expense of $350,000 for severance costs during the period.

Other income (expense), net, was $18,000 of income for the third quarter of fiscal 2015 as compared to $11,000 of income for the corresponding period a year ago.

Other income (expense), net, was $88,000 of expense for the first nine months of fiscal 2015 as compared to $8,000 of income for the corresponding period a year ago. The increase in other income (expense) was the result of reduced investment income as well as an increase of $52,000 in foreign currency transaction losses as compared to the prior year.

We reported a pre-tax income of $3,830,000 in the third quarter of fiscal 2015 as compared to pre-tax income of $2,344,000 in the corresponding period due to the factors described above. We reported a pre-tax income of $143,000 in the first nine months of fiscal 2015 as compared to pre-tax income of $16,786,000 in the corresponding period due to the factors described above.

Our effective tax rate was 33.3% for the third quarter of fiscal 2015 as compared to an effective tax rate of 33.5% for the third quarter of fiscal 2014. Our effective tax rate was 28.7% for the nine months ended December 31, 2014 as compared to 33.5% for the nine months ended December 31, 2013. The decrease in the effective tax rate was due primarily to the reinstatement in December 2014 by Congress of the Research and Experimentation (R&E) Tax Credit through December 31, 2014.

Liquidity and Capital Resources

Our sources of liquidity 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 decreased by $16,412,000 to $45,731,000 at December 31, 2014 compared to $62,143,000 at March 31, 2014. Cash inflows for the period consisted primarily of:

1) net income of $102,000 for the period adjusted by $8,359,000 in non-cash expenditures which included depreciation expense, stock based compensation, amortization of bond premiums, and provisions for contract, inventory and accounts receivable reserves;

2) net proceeds from sales and maturities of short-term investments of $27,222,000;

3) a decrease of $7,500,000 in accounts receivable from year end;

4) a decrease in restricted cash and investments of $2,482,000; and

5) an increase of $2,312,000 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 payment of $18,799,000 to repurchase 383,471 shares of our common stock during the period;

2) the payment of $11,948,000 in common stock dividends during the period as part of our quarterly dividend program;

3) an increase in inventories of $9,138,000 attributable to inventory buildup to fulfill projected and current orders;

4) a decrease in accrued expenses and other liabilities of $7,917,000 due primarily to the payment of incentive compensation, agent commissions and project-related costs accrued for at year end;

5) an increase in prepaid expenses and other assets of $6,324,000 attributable primarily to the payment of estimated taxes;

6) a decrease in accounts payable of $3,868,000 from the year end; and

7) a decrease in accrued income taxes of $2,338,000 due the payment of estimated taxes related to the year-end tax provision.

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 December 31, 2014, we had outstanding $22,581,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 77% of the outstanding letters of credit, resulting in a restricted cash and investments balance of $12,434,000 at December 31, 2014, of which $208,000 was considered long-term restricted cash and investments due to the expiration date of the underlying letters of credit.

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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, 2014, as filed with the Securities and Exchange Commission on June 6, 2014.

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, we reviewed and evaluated the effectiveness of our 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 us in such reports is accumulated and communicated to our management, including our 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, our 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, 2014 as filed with the Securities and Exchange Commission on June 6, 2014. There have been no material changes from the factors disclosed in our Form 10-K for the year ended March 31, 2014, 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

On May 7, 2013, the Board of Directors announced the approval of a Stock Repurchase Program which authorizes us to repurchase up to $35.0 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. On December 1, 2014, the Board of Directors announced an expansion of this stock repurchase program increasing the program authorization to $50 million of shares of our common stock.

The following table provides information about our purchases during the quarter ended December 31, 2014 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

Quarter Ended December 31, 2014	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
October 1 October 31	65,200	$	48.33	65,200	$	31,846,000
November 1 November 30	82,445		47.31	82,445	$	42,941,000
December 1 December 31	235,826		49.81	235,826	$	31,183,000
Total	383,471	$	49.02	383,471		

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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 thereunto duly authorized.

AMERICAN SCIENCE AND ENGINEERING, INC.

Date: February 5, 2015

/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	Amendment No. 1 to Rights Agreement dated as of April 17, 2008 between American Science and Engineering, Inc. and American Stock Transfer and Trust Company, LLC, as rights agent (filed as Exhibit 4.1 to the Company s filing on Form 8-K filed on December 22, 2014 and incorporated herein by reference)
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 December 31, 2014, formatted in XBRL (eXtensible Business Reporting Language) includes: (i) Condensed Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended December 31, 2014 and 2013, (ii) Condensed Consolidated Balance Sheets at December 31, 2014 and March 31, 2014, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2014 and 2013, and (iv) the Notes to Condensed Consolidated Financial Statements.*

Filed herewith