

OSI SYSTEMS INC

FORM 10-Q (Quarterly Report)

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Address	12525 CHADRON AVE HAWTHORNE, CA 90250
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 0-23125

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0238801
(I.R.S. Employer
Identification No.)

**12525 Chadron Avenue
Hawthorne, California 90250**
(Address of principal executive offices) (zip code)

(310) 978-0516
(Registrant's telephone number, including area code)

N/A
(former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant 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 No

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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 25, 2011, there were 19,645,145 shares of the registrant's common stock outstanding.

OSI SYSTEMS, INC.

INDEX

	<u>PAGE</u>
PART I — FINANCIAL INFORMATION	3
Item 1 — Condensed Consolidated Financial Statements	3
Condensed Consolidated Balance Sheets at June 30, 2011 and September 30, 2011	3
Condensed Consolidated Statements of Operations for the three months ended September 30, 2010 and 2011	4
Condensed Consolidated Statements of Comprehensive Income	5
Condensed Consolidated Statements of Cash Flows for the three months ended September 30, 2010 and 2011	6
Notes to Condensed Consolidated Financial Statements	7
Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 3 — Quantitative and Qualitative Disclosures about Market Risk	19
Item 4 — Controls and Procedures	20
PART II — OTHER INFORMATION	21
Item 1 — Legal Proceedings	21
Item 1A — Risk Factors	21
Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds	21
Item 3 — Default Upon Senior Securities	21
Item 4 — (Removed and Reserved)	21
Item 5 — Other Information	21
Item 6 — Exhibits	22
Signatures	23

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)
(Unaudited)

	June 30, 2011	September 30, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 55,619	\$ 58,363
Accounts receivable, net	136,716	130,607
Other receivables	5,012	4,460
Inventories	169,634	187,957
Deferred income taxes	17,156	17,303
Prepaid expenses and other current assets	21,149	19,386
Total current assets	405,286	418,076
Property and equipment, net	55,017	55,619
Goodwill	70,292	75,588
Intangible assets, net	33,707	33,415
Other assets	20,614	15,574
Total assets	<u>\$ 584,916</u>	<u>\$ 598,272</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 66,462	\$ 71,921
Accrued payroll and related expenses	24,417	17,498
Advances from customers	25,191	28,872
Accrued warranties	14,530	14,438
Deferred revenue	15,956	12,960
Other accrued expenses and current liabilities	14,425	16,401
Total current liabilities	160,981	162,090
Long-term debt	2,756	2,641
Other long-term liabilities	36,379	44,350
Total liabilities	200,116	209,081
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Preferred stock, no par value—authorized, 10,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value—authorized, 100,000,000 shares; issued and outstanding, 19,507,065 at June 30, 2011 and 19,645,145 shares at September 30, 2011	272,552	275,172
Retained earnings	110,103	114,864
Accumulated other comprehensive income (loss)	2,145	(845)
Total stockholders' equity	384,800	389,191
Total liabilities and equity	<u>\$ 584,916</u>	<u>\$ 598,272</u>

See accompanying notes to condensed consolidated financial statements

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amount data)
(Unaudited)

	For the Three Months Ended September 30,	
	2010	2011
Revenues	\$ 128,453	\$ 161,317
Cost of goods sold	81,555	108,460
Gross profit	46,898	52,857
Operating expenses:		
Selling, general and administrative expenses	31,976	34,367
Research and development	9,231	10,880
Restructuring and other charges	256	—
Total operating expenses	41,463	45,247
Income from operations	5,435	7,610
Interest and other expense, net	(590)	(799)
Income before income taxes	4,845	6,811
Provision for income taxes	1,453	2,050
Net income	<u>\$ 3,392</u>	<u>\$ 4,761</u>
Net income per share:		
Basic	<u>\$ 0.18</u>	<u>\$ 0.24</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.24</u>
Shares used in per share calculation:		
Basic	<u>18,433</u>	<u>19,576</u>
Diluted	<u>19,078</u>	<u>20,089</u>

See accompanying notes to condensed consolidated financial statements

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands)
(Unaudited)

	For the Three Months Ended September 30,	
	2010	2011
Net income	\$ 3,392	\$ 4,761
Other comprehensive income (loss):		
Foreign currency translation adjustment	4,912	(3,260)
Other	160	270
Other comprehensive income (loss)	5,072	(2,990)
Comprehensive income	<u>\$ 8,464</u>	<u>\$ 1,771</u>

See accompanying notes to condensed consolidated financial statements

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(Unaudited)

	For the Three Months Ended September 30,	
	2010	2011
Cash flows from operating activities:		
Net income	\$ 3,392	\$ 4,761
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,468	4,832
Stock based compensation expense	1,298	1,511
Provision for (recovery of) losses on accounts receivable	(272)	305
Equity in earnings of unconsolidated affiliates	(211)	(44)
Deferred income taxes	272	(176)
Other	45	13
Changes in operating assets and liabilities—net of business acquisitions:		
Accounts receivable	34,275	5,553
Other receivables	91	296
Inventories	(19,055)	(16,579)
Prepaid expenses and other current assets	78	5,691
Accounts payable	(982)	5,163
Accrued payroll and related expenses	(8,302)	(6,805)
Advances from customers	(3,049)	5,421
Accrued warranties	265	37
Deferred revenue	(526)	(2,433)
Other accrued expenses and current liabilities	(2,191)	2,448
Net cash provided by operating activities	<u>9,596</u>	<u>9,994</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(2,012)	(3,148)
Acquisition of businesses	(2,048)	(3,189)
Acquisition of intangible and other assets	(671)	(869)
Net cash used in investing activities	<u>(4,731)</u>	<u>(7,206)</u>
Cash flows from financing activities:		
Payments on long-term debt and capital lease obligations	(6,783)	(55)
Proceeds from exercise of stock options and employee stock purchase plan	4,801	1,109
Net cash provided by (used in) financing activities	<u>(1,982)</u>	<u>1,054</u>
Effect of exchange rate changes on cash	697	(1,098)
Net increase in cash and cash equivalents	3,580	2,744
Cash and cash equivalents-beginning of period	51,989	55,619
Cash and cash equivalents-end of period	<u>\$ 55,569</u>	<u>\$ 58,363</u>
Supplemental disclosure of cash flow information:		
Cash paid (refunded), net during the year for:		
Interest	\$ 472	\$ 950
Income taxes	\$ 2,413	\$ (479)

See accompanying notes to Condensed Consolidated Financial Statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

Description of Business

OSI Systems, Inc., together with its subsidiaries (the “Company”), is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. The Company sells its products in diversified markets, including homeland security, healthcare, defense and aerospace.

The Company has three operating divisions: (i) Security, providing security inspection systems and related services; (ii) Healthcare, providing patient monitoring, diagnostic cardiology and anesthesia systems, and related services; and (iii) Optoelectronics and Manufacturing, providing specialized electronic components for the Security and Healthcare divisions as well as for applications in the defense and aerospace markets, among others.

Through its Security division, the Company designs, manufactures, markets and services security and inspection systems worldwide, and provides turnkey security screening solutions. The Security division’s products are used to inspect baggage, cargo, vehicles and other objects for weapons, explosives, drugs and other contraband, and to screen people. These products and services are also used for the safe, accurate and efficient verification of cargo manifests for the purpose of assessing duties and monitoring the export and import of controlled materials.

Through its Healthcare division, the Company designs, manufactures, markets and services patient monitoring, diagnostic cardiology and anesthesia delivery and ventilation systems worldwide primarily under the “Spacelabs” trade name. These products are used by care providers in critical care, emergency and perioperative areas within hospitals as well as physician offices, medical clinics and ambulatory surgery centers.

Through its Optoelectronics and Manufacturing division, the Company designs, manufactures and markets optoelectronic devices and provides electronics manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, telecommunications, office automation, computer peripherals and industrial automation. This division provides products and services to original equipment manufacturers and end users as well as to the Company’s own Security and Healthcare divisions.

Basis of Presentation

The condensed consolidated financial statements include the accounts of OSI Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines and the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company’s management, all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented have been included. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission on August 26, 2011. The results of operations for the three months ended September 30, 2011, are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

Per Share Computations

The Company computes basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. The Company computes diluted earnings per share by dividing net income available to common stockholders by the sum of the weighted average number of common and dilutive potential common shares outstanding. Potential common shares consist of the shares issuable upon the exercise of stock options or warrants under the treasury stock method. All stock options and warrants were included in the diluted earnings per share calculations for the three months ended September 30, 2010. Stock options to purchase a total of 0.1 million shares of common stock for the three months ended September 30, 2011, were not included in diluted earnings per share calculations because to do so would have been antidilutive. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2010	2011
Net income for diluted earnings per share calculation	\$ 3,392	\$ 4,761
Weighted average shares for basic earnings per share calculation	18,433	19,576
Dilutive effect of stock awards and warrants	645	513
Weighted average shares for diluted earnings per share calculation	19,078	20,089
Basic net income per share	\$ 0.18	\$ 0.24
Diluted net income per share	\$ 0.18	\$ 0.24

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, marketable securities, accounts receivable, accounts payable and debt instruments. The carrying values of financial instruments, other than debt instruments, are representative of their fair values due to their short-term maturities. The carrying values of the Company's long-term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates offered to the Company.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company has determined that all of its marketable securities fall into the "Level 1" category, which values assets at the quoted prices in active markets for identical assets; while the Company's derivative instruments fall into the "Level 2" category, which values assets and liabilities from observable inputs other than quoted market prices. There were no assets or liabilities where "Level 3" valuation techniques were used and there were no assets and liabilities measured at fair value on a non-recurring basis.

The fair values of the Company's assets (liabilities) were:

	June 30, 2011	September 30, 2011
Level 1	\$ 8,115	\$ 7,937
Level 2	(187)	22
Total	\$ 7,928	\$ 7,959

Derivative Instruments and Hedging Activity

The Company's use of derivatives consists primarily of foreign exchange contracts. As of September 30, 2011, the Company had outstanding foreign currency forward contracts of approximately \$8.7 million, which include both effective cash flow hedge contract as well as a contract that do not meet the criteria as an effective cash flow hedge. The net gain (loss) for the portion of the forward contracts that is considered an effective cash flow hedge on such derivative contract has been reported as a component of other comprehensive income in the condensed consolidated financial statements and is reclassified as net earnings when the hedge transaction settles. The loss from the portion or contracts that do not qualify as a cash flow hedge is reported in Interest and other expense, net in the condensed consolidated statement of operations.

Business Combinations

During the normal course of business the Company makes acquisitions. In the event that an individual acquisition (or an aggregate of acquisitions) is material, appropriate disclosure of such acquisition activity is disclosed.

Recent Accounting Updates Not Yet Adopted

In September 2011, The FASB has issued ASU No. 2011-08, *Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment*. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is “more likely than not” that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles—Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company is currently evaluating the impact of the adoption of this ASU on its consolidated financial statements.

2. Balance Sheet Details

The following tables provide details of selected balance sheet accounts (in thousands):

	<u>June 30, 2011</u>	<u>September 30, 2011</u>
Accounts receivable		
Trade receivables	\$ 142,509	\$ 136,711
Less: allowance for doubtful accounts	(5,793)	(6,104)
Total	<u>\$ 136,716</u>	<u>\$ 130,607</u>
	<u>June 30, 2011</u>	<u>September 30, 2011</u>
Inventories, net		
Raw materials	\$ 92,373	\$ 93,072
Work-in-process	37,202	39,481
Finished goods	40,059	55,404
Total	<u>\$ 169,634</u>	<u>\$ 187,957</u>
	<u>June 30, 2011</u>	<u>September 30, 2011</u>
Property and equipment, net		
Land	\$ 5,296	\$ 5,211
Buildings	9,638	9,619
Leasehold improvements	12,989	13,914
Equipment and tooling	72,104	73,340
Furniture and fixtures	4,431	4,561
Computer equipment	14,034	14,900
Computer software	14,618	14,676
Total	<u>133,110</u>	<u>136,221</u>
Less: accumulated depreciation and amortization	(78,093)	(80,602)
Property and equipment, net	<u>\$ 55,017</u>	<u>\$ 55,619</u>

3. Goodwill and Intangible Assets

The goodwill acquired during the period within the Security division related to an acquisition of a business that was considered immaterial to the Company. The changes in the carrying value of goodwill for the three month period ended September 30, 2011, are as follows (in thousands):

	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Consolidated
Balance as of June 30, 2011	\$ 21,040	\$ 35,612	\$ 13,640	\$ 70,292
Goodwill acquired during the period	5,608	—	—	5,608
Foreign currency translation adjustment	(221)	(82)	(9)	(312)
Balance as of September 30, 2011	<u>\$ 26,427</u>	<u>\$ 35,530</u>	<u>\$ 13,631</u>	<u>\$ 75,588</u>

Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	June 30, 2011			September 30, 2011		
		Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Software development costs	5 years	\$ 13,090	\$ 3,807	\$ 9,283	\$ 13,113	\$ 3,411	\$ 9,702
Patents	10 years	2,975	449	2,526	3,236	478	2,758
Core technology	10 years	2,151	1,376	775	2,104	1,398	706
Developed technology	13 years	18,823	10,718	8,105	18,617	11,010	7,607
Customer relationships/backlog	8 years	10,411	6,824	3,587	10,397	7,163	3,234
Total amortizable assets		<u>47,450</u>	<u>23,174</u>	<u>24,276</u>	<u>47,467</u>	<u>23,460</u>	<u>24,007</u>
Non-amortizable assets:							
Trademarks		9,431	—	9,431	9,408	—	9,408
Total intangible assets		<u>\$ 56,881</u>	<u>\$ 23,174</u>	<u>\$ 33,707</u>	<u>\$ 56,875</u>	<u>\$ 23,460</u>	<u>\$ 33,415</u>

Amortization expense related to intangibles assets was \$1.0 and \$1.1 million for the three months ended September 30, 2010 and 2011, respectively. At September 30, 2011, the estimated future amortization expense was as follows (in thousands):

2012 (remaining 9 months)	\$ 3,346
2013	4,222
2014	3,013
2015	1,605
2016	1,496
2017	1,425
2018 and thereafter	8,900
Total	<u>\$ 24,007</u>

4. Borrowings

In October 2010, the Company entered into a credit agreement with a syndicate of banks for a \$250 million revolving credit facility. This credit agreement consists of a \$250 million, five-year revolving credit facility, including a \$155 million sub-limit for letters of credit. Borrowings under this facility bear interest, based on the Company's option, at either (i) London Interbank Offered Rate (LIBOR) plus margins that range from 2.00% to 2.50% or (ii) the sum of margins that range from 1.00% to 1.50% and the higher of (a) the bank's prime rate, (b) the Fed Funds rate plus 0.5% or (c) LIBOR plus 1.0%. The margins are determined by the Company's consolidated leverage ratio. The Company's borrowings under the credit agreement are guaranteed by the Company's U.S.-based subsidiaries and are secured by substantially all of the Company's and certain subsidiaries' assets. The agreement contains various representations, warranties, affirmative, negative and financial covenants, and conditions of default customary for financing agreements of this type, including restrictions on the Company's ability to pay cash dividends. As of September 30, 2011, there was no debt outstanding under the revolving credit facility and \$71.7 million was outstanding under the letter-of-credit facility.

Several of the Company's foreign subsidiaries maintain bank lines-of-credit, denominated in local currencies, to meet short-term working capital requirements and for the issuance of letters-of-credit. As of September 30, 2011, \$17.2 million was outstanding under these letter-of-credit facilities, while no debt was outstanding. As of September 30, 2011, the total amount available under these credit facilities was \$21.0 million, with a total cash borrowing sub-limit of \$4.1 million.

In fiscal 2005, the Company entered into a bank loan of \$5.3 million to fund the acquisition of land and buildings in the U.K. The loan is payable over a 20-year period. The loan bears interest at British pound-based LIBOR plus 1.2%, payable on a quarterly basis. As of September 30, 2011, \$2.9 million remained outstanding under this loan at an interest rate of 2.0% per annum.

Long-term debt consisted of the following (in thousands):

	June 30, 2011	September 30, 2011
Twenty-year term loan due in 2024	\$ 2,977	\$ 2,857
Less current portion of long-term debt (in other accrued expenses and current liabilities)	221	216
Long-term portion of debt	<u>\$ 2,756</u>	<u>\$ 2,641</u>

5. Stock-based Compensation

As of September 30, 2011, the Company maintained an equity participation plan and an employee stock purchase plan.

The Company recorded stock-based-compensation expense in the condensed consolidated statement of operations as follows (in thousands):

	Three Months Ended September 30,	
	2010	2011
Cost of goods sold	\$ 88	\$ 118
Selling, general and administrative	1,156	1,330
Research and development	54	63
	<u>\$ 1,298</u>	<u>\$ 1,511</u>

As of September 30, 2011, total unrecognized compensation cost related to non-vested, share-based compensation arrangements granted was approximately \$15.7 million. The Company expects to recognize these costs over a weighted-average period of 2.9 years.

6. Retirement Benefit Plans

The Company sponsors various retirement benefit plans including qualified and nonqualified defined benefit pension plans for its employees. The components of net periodic pension expense are as follows (in thousands):

	Three Months Ended September 30,	
	2010	2011
Service cost	\$ 134	\$ 157
Amortization of net loss	25	112
Net periodic pension expense	<u>\$ 159</u>	<u>\$ 269</u>

For each of the three months ended September 30, 2010 and 2011, the Company made contributions of \$0.1 million to these defined benefit plans.

In addition, the Company maintains various defined contribution plans. For the three months ended September 30, 2010 and 2011, the Company made contributions of \$1.4 million and \$1.1 million, respectively, to these defined contribution plans.

7. Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and legal proceedings arising out of the ordinary course of business. In the Company's opinion after consultation with legal counsel, the ultimate disposition of such proceedings is not likely to have a material adverse effect on its financial position, future results of operations or cash flows. The Company has not accrued for loss contingencies relating to such matters because the Company believes that, although unfavorable outcomes in the proceedings may be possible, they are not considered by management to be probable or reasonably estimable. If one or more of these matters are resolved in a manner adverse to the Company, the impact on the Company's results of operations, financial position and/or liquidity could be material.

Contingent Acquisition Obligations

Under the terms and conditions of the purchase agreements associated with certain acquisitions, the Company may be obligated to make additional payments based on the achievement by the acquired operations of certain sales or profitability milestones. The maximum amount of such payments under arrangements with contingent consideration caps is \$52 million. In addition, one of the purchase agreements the Company entered into requires royalty payments through 2022 based on the license of, or sales of products containing the technology of CXR Limited, a company acquired in 2004.

For acquisitions that occurred prior to fiscal year 2010, the Statement of Financial Accounting Standards for "Business Combinations," the then prevailing account standard, required the Company to account for such contingent payments as an addition to the purchase price of the acquired company. For subsequent acquisitions, the guidance under the Accounting Standards Codification for, "Purchase Price Allocations," required that the estimated fair value of these obligations be recorded as a liability in the condensed consolidated balance sheet with subsequent revisions reflected in the condensed consolidated statements of operations. As of September 30, 2011, \$16.5 million of contingent payment obligations are included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

Environmental Contingencies

The Company is subject to various environmental laws. The Company's practice is to ensure that Phase I environmental site assessments are conducted for each of its properties in the United States at which the Company manufactures products in order to identify, as of the date of such report, potential areas of environmental concern related to past and present activities or from nearby operations. In certain cases, the Company has conducted further environmental assessments consisting of soil and groundwater testing and other investigations deemed appropriate by independent environmental consultants.

During one investigation, the Company discovered soil and groundwater contamination at its Hawthorne, California facility. The Company filed the requisite reports concerning this problem with the appropriate environmental authorities in fiscal 2001. The Company has not yet received any response to such reports, and no agency action or litigation is presently pending or threatened. The Company's site was previously used by other companies for semiconductor manufacturing similar to that presently conducted on the site by the Company, and it is not presently known who is responsible for the contamination or, if required, the remediation. The groundwater contamination is a known regional problem, not limited to the Company's premises or its immediate surroundings.

The Company has also been informed of soil and groundwater evaluation efforts at a facility that its Ferson Technologies subsidiary previously leased in Ocean Springs, Mississippi. Ferson Technologies occupied the facility until October 2003. The Company believes that the owner and previous occupants of the facility have primary responsibility for any remediation that may be required and have an agreement with the facility's owner under which the owner is responsible for remediation of pre-existing conditions. However, as site evaluation efforts are still in progress, and may be for some time, the Company is unable at this time to ascertain whether Ferson Technologies bears any exposure for remediation costs under applicable environmental regulations.

The Company has not accrued for loss contingencies relating to the above environmental matters because it believes that, although unfavorable outcomes may be possible, they are not considered by the Company's management to be probable and reasonably estimable. If one or more of these matters are resolved in a manner adverse to the Company, the impact on the Company's results of operations, financial position and/or liquidity could be material.

Product Warranties

The Company offers its customers warranties on many of the products that it sells. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Concurrent with the sale of products, the Company records a provision for estimated warranty expenses with a corresponding increase in cost of goods sold. The Company periodically adjusts this provision based on historical and anticipated experience. The Company charges actual expenses of repairs under warranty, including parts and labor, to this provision when incurred.

The following table presents changes in warranty provisions (in thousands):

	Three Months Ended September 30,	
	2010	2011
Balance at beginning of period	\$ 10,930	\$ 14,530
Additions	1,137	834
Reductions for warranty repair costs and adjustments	(672)	(926)
Balance at end of period	<u>\$ 11,395</u>	<u>\$ 14,438</u>

8. Income Taxes

The provision for income taxes is determined using an effective tax rate that is subject to fluctuations during the year as new information is obtained. The assumptions used to estimate the annual effective tax rate includes factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, increases or decreases in uncertain tax positions, utilization of research and development tax credits, and changes in or the interpretation of tax laws in jurisdictions where the Company conducts business. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers. The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made.

9. Segment and Enterprise-Wide Information

The Company operates in three identifiable industry segments: (i) Security, providing security and inspection systems, and turnkey security screening solutions; (ii) Healthcare, providing patient monitoring, diagnostic cardiology and anesthesia systems; and (iii) Optoelectronics and Manufacturing, providing specialized electronic components for affiliated end-products divisions, as well as for applications in the healthcare, defense and aerospace markets, among others. The Company also has a Corporate segment that includes executive compensation and certain other general and administrative expenses. Interest expense and certain expenses related to legal, audit and other professional service fees are not allocated to industry segments. Both the Security and Healthcare divisions comprise primarily end-product businesses, whereas the Optoelectronics and Manufacturing division comprises businesses that primarily supply components and subsystems to original equipment manufacturers, including to the businesses of the Security and Healthcare divisions. All intersegment sales are eliminated in consolidation.

Table of Contents

The following table presents segment and enterprise-wide information (in thousands):

	Three Months Ended September 30,	
	2010	2011
Revenues — by Segment:		
Security division	\$ 51,097	\$ 72,597
Healthcare division	45,924	46,520
Optoelectronics and Manufacturing division, including intersegment revenues	41,911	53,091
Intersegment revenues elimination	(10,479)	(10,891)
Total	<u>\$ 128,453</u>	<u>\$ 161,317</u>
Revenues — by Geography:		
North America	\$ 97,002	\$ 107,822
Europe	21,064	35,340
Asia	20,866	29,046
Intersegment revenues elimination	(10,479)	(10,891)
Total	<u>\$ 128,453</u>	<u>\$ 161,317</u>
Operating income (loss) — by Segment:		
Security division	\$ 2,111	\$ 3,845
Healthcare division	2,598	2,398
Optoelectronics and Manufacturing division	3,421	4,938
Corporate	(2,176)	(3,307)
Eliminations (1)	(519)	(264)
Total	<u>\$ 5,435</u>	<u>\$ 7,610</u>
Assets — by Segment:		
Security division	\$ 245,068	\$ 269,278
Healthcare division	152,048	142,967
Optoelectronics and Manufacturing division	109,961	114,811
Corporate	84,082	77,724
Eliminations (1)	(6,243)	(6,508)
Total	<u>\$ 584,916</u>	<u>\$ 598,272</u>

(1) Eliminations within operating income primarily reflect the change in the elimination of intercompany profit in inventory not-yet-realized; while the eliminations in assets reflect the amount of intercompany profits in inventory as of the balance sheet date. Such intercompany profit will be realized when inventory is shipped to the external customers of the Security and Healthcare divisions.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement

Certain statements contained in this quarterly report on Form 10-Q that are not related to historical results, including, without limitation, statements regarding our business strategy, objectives and future financial position, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and involve risks and uncertainties. These forward-looking statements may be identified by the use of forward-looking terms such as “anticipate,” “believe,” “expect,” “may,” “could,” “likely to,” “should,” or “will,” or by discussions of strategy that involve predictions which are based upon a number of future conditions that ultimately may prove to be inaccurate. Statements in this quarterly report on Form 10-Q that are forward-looking are based on current expectations and actual results may differ materially. Forward-looking statements involve numerous risks and uncertainties described in this quarterly report on Form 10-Q, our Annual Report on Form 10-K and other documents previously filed or hereafter filed by us from time to time with the Securities and Exchange Commission. Such factors, of course, do not include all factors that might affect our business and financial condition. Although we believe that the assumptions upon which our forward-looking statements are based are reasonable, such assumptions could prove to be inaccurate and actual results could differ materially from those expressed in or implied by the forward-looking statements. All forward-looking statements contained in this quarterly report on Form 10-Q are qualified in their entirety by this statement. We undertake no obligation other than as may be required under securities laws to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions and select accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting policies are detailed in our Annual Report on Form 10-K for the year ended June 30, 2011.

Recent Accounting Pronouncements

We describe recent accounting pronouncements in Item 1 — “Condensed Consolidated Financial Statements — Notes to Condensed Consolidated Financial Statements.”

Executive Summary

We are a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. We sell our products and provide related services in diversified markets, including homeland security, healthcare, defense and aerospace. We have three operating divisions: (i) Security, (ii) Healthcare and (iii) Optoelectronics and Manufacturing.

Security Division. Through our Security division, we design, manufacture, market and service security and inspection systems, and provide turnkey security screening solutions worldwide for sale primarily to U.S. federal, state and local government agencies as well as to international customers. These products and services are used to inspect baggage, cargo, vehicles and other objects for weapons, explosives, drugs and other contraband as well as to screen people. Revenues from our Security division accounted for 45% and 40% of our total consolidated revenues for the three months ended September 30, 2011 and 2010, respectively.

As a result of the terrorist attacks of September 11, 2001, and subsequent attacks in other locations worldwide, security and inspection products have increasingly been used at a wide range of facilities other than airports, such as border crossings, railway stations, seaports, cruise line terminals, freight forwarding operations, sporting venues, government and military installations and nuclear facilities.

Healthcare Division. Through our Healthcare division, we design, manufacture, market and service patient monitoring, diagnostic cardiology and anesthesia systems for sale primarily to hospitals and medical centers. Our products monitor patients in critical, emergency and perioperative care areas of the hospital and provide such information, through wired and wireless networks, to

physicians and nurses who may be at the patient’s bedside, in another area of the hospital or even outside the hospital. Revenues from our Healthcare division accounted for 29% and 36% of our total consolidated revenues for the three months ended September 30, 2011 and 2010, respectively.

The healthcare markets in which we operate are highly competitive. We believe that our customers choose among competing products on the basis of product performance, functionality, value and service. We also believe that the worldwide economic slowdown has caused some hospitals and healthcare providers to delay purchases of our products and services. During this period of uncertainty, we anticipate lower sales of patient monitoring, diagnostic cardiology and anesthesia systems products than we have historically experienced, resulting in a negative impact on our sales. Although there are indications that a recovery is underway, we cannot predict when the markets will fully recover and, therefore, when this period of delayed and diminished purchasing will end. A prolonged delay could have a material adverse effect on our business, financial condition and results of operations.

Optoelectronics and Manufacturing Division. Through our Optoelectronics and Manufacturing division, we design, manufacture and market optoelectronic devices and value-added manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, computed tomography, fiber optics, telecommunications, office automation, computer peripherals and industrial automation. We also provide our optoelectronic devices and value-added manufacturing services to our own Security and Healthcare divisions. External revenues from our Optoelectronics and Manufacturing division accounted for 26% and 24% of our total consolidated revenues for the three months ended September 30, 2011 and 2010, respectively.

Results of Operations for the Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010 (amounts in millions)

Net Revenues

The table below and the discussion that follows are based upon the way in which we analyze our business. See Note 9 to the condensed consolidated financial statements for additional information about our business segments.

	Q1 2011	% of Net Sales	Q1 2012	% of Net Sales	\$ Change	% Change
Security division	\$ 51.1	40%	\$ 72.6	45%	\$ 21.5	42%
Healthcare division	45.9	36%	46.5	29%	0.6	1%
Optoelectronics and Manufacturing division	41.9	32%	53.1	33%	11.2	27%
Intersegment revenues	(10.4)	(8)%	(10.9)	(7)%	(0.5)	4%
Total revenues	<u>\$ 128.5</u>		<u>\$ 161.3</u>		<u>\$ 32.8</u>	26%

Net revenues for the three months ended September 30, 2011, increased \$32.8 million, or 26%, to \$161.3 million from \$128.5 million for the comparable prior-year period.

Revenues for the Security division for the three months ended September 30, 2011, increased \$21.5 million, or 42%, to \$72.6 million, from \$51.1 million for the comparable prior-year period. The increase was attributable to: (i) a \$14.8 million or 39% increase in equipment sales mainly driven by a \$9.7 million increase in sales of cargo and vehicle inspection systems and by a \$3.5 million increase in baggage and parcel inspection, people screening and hold baggage screening products; and (ii) a \$6.0 million or 47% increase in service revenue.

Revenues for the Healthcare division for the three months ended September 30, 2011, increased \$0.6 million, or 1%, to \$46.5 million, from \$45.9 million for the comparable prior-year period. The increase was primarily attributable to a \$2.1 million increase in patient monitoring revenues mainly in North America and Emerging Markets partially offset by a \$0.8 million decrease in cardiology equipment revenues as well as a \$0.7 million decrease in our anesthesia equipment revenues.

Revenues for the Optoelectronics and Manufacturing division for the three months ended September 30, 2011, increased \$11.2 million, or 27%, to \$53.1 million, from \$41.9 million for the comparable prior-year period. This change was driven by an increase in

commercial optoelectronics sales, which increased by \$11.5 million or 59%. The Optoelectronics and Manufacturing division recorded intersegment sales of \$10.9 million, compared to \$10.4 million in the comparable prior-year period. Such intersegment sales are eliminated in consolidation.

Gross Profit

	Q1 2011	% of Net Sales	Q1 2012	% of Net Sales
Gross profit	\$ 46.9	36.5%	\$ 52.9	32.8%

Gross profit increased \$6.0 million, or 13%, to \$52.9 million for the three months ended September 30, 2011, from \$46.9 million for the comparable prior-year period. The gross margin decreased to 32.8% in the three months ended September 30, 2011, from 36.5% for the comparable prior-year period. The decrease was primarily attributable to the faster growth within our Security division (which grew by 42%) and our Optoelectronics and Manufacturing division (which grew by 27%) which generate lower gross margins than our Healthcare division (which grew by 1%). In addition, product mix and cost overruns related to work performed by outside subcontractors within our Security division negatively impacted gross margins.

Operating Expenses

	Q1 2011	% of Net Sales	Q1 2012	% of Net Sales	\$ Change	% Change
Selling, general and administrative	\$ 32.0	24.9%	\$ 34.4	21.3%	\$ 2.4	8%
Research and development	9.2	7.2%	10.9	6.8%	1.7	18%
Restructuring and other charges	0.3	0.2%	—	—	(0.3)	(100)%
Total operating expenses	<u>\$ 41.5</u>	<u>32.3%</u>	<u>\$ 45.3</u>	<u>28.1%</u>	<u>\$ 3.8</u>	<u>9%</u>

Selling, general and administrative expenses . Selling, general and administrative (SG&A) expenses consist primarily of compensation paid to sales, marketing and administrative personnel, professional service fees and marketing expenses. For the three months ended September 30, 2011, SG&A expenses increased by \$2.4 million, or 8%, to \$34.4 million, from \$32.0 million for the comparable prior-year period. This increase in spending was primarily attributable to an increase in costs to support the 26% growth in total revenue. As a percentage of revenue, SG&A expenses were 21.3% for the three months ended September 30, 2011, compared to 24.9% for the comparable prior-year period.

Research and development . Research and development (R&D) expenses include research related to new product development and product enhancement expenditures. For the three months ended September 30, 2011, such expenses increased \$1.7 million, or 18%, to \$10.9 million, from \$9.2 million for the comparable prior-year period. As a percentage of revenues, R&D expenses were 6.8% for the three months ended September 30, 2011, compared to 7.2% for the comparable prior-year period. The increase in R&D expenses for the three month period ended September 30, 2011, was primarily attributable to an increase in spending in both our Security and Healthcare divisions in support of new product introductions.

Other Income and Expenses

	Q1 2011	% of Net Sales	Q1 2012	% of Net Sales	\$ Change	% Change
Interest and other expense, net	\$ 0.6	0.5%	\$ 0.8	0.5%	\$ 0.2	33%

Interest and other expense, net . For the three months ended September 30, 2011, interest and other expense, net amounted to \$(0.8) million as compared to \$(0.6) million in the comparable prior-year period. The increase was due to higher utilization of the letters-of-credit facility and a loss related to the performance of a foreign currency forward contract, which was not treated as a cash flow hedge, partially offset by lower interest expense as a result of lower levels of outstanding debt during the current year.

Income taxes . For the three months ended September 30, 2011, our income tax provision was \$2.0 million, compared to \$1.5 million for the comparable prior-year period. Our effective tax rate for the three months ended September 30, 2011, was 30.1%, as compared to 30.0% in the comparable prior-year period. Our provision for income taxes is dependent on the mix of income from U.S. and foreign locations due to tax rate differences among countries as well as due to the impact of permanent taxable differences.

Liquidity and Capital Resources

To date, we have financed our operations primarily through cash flow from operations, proceeds from equity issuances and our credit facilities. Cash and cash equivalents totaled \$58.4 million at September 30, 2011, an increase of \$2.8 million from \$55.6 million at June 30, 2011. The changes in our working capital and cash and cash equivalent balances are described below.

	June 30, 2011	September 30, 2011	% Change
Working capital	\$ 244.3	\$ 256.0	5%
Cash and cash equivalents	55.6	58.4	5%

Working Capital. The increase in working capital is primarily due to: (i) increases in inventory of \$18.3 million, primarily in our Security division, to support fulfillment of future shipments; (ii) decreases in accrued payroll and employee benefits of \$6.9 million and; (iii) a \$2.8 million increase in cash and cash equivalents. These increases were partially offset by: (i) a \$6.1 million reduction in accounts receivables, reflecting the volatility of collections as a result of the seasonality of sales; (ii) a \$5.5 million increase in accounts payable, driven primarily by the increase in inventory as previously noted and; (iii) an increase in advances from customers primarily in our Security division.

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2011	% Change
Cash provided by operating activities	\$ 9.6	\$ 10.0	4%
Cash used in investing activities	(4.7)	(7.2)	53%
Cash provided by (used in) financing activities	(2.0)	1.1	155%

Cash Provided by Operating Activities. Cash flows from operating activities can fluctuate significantly from period to period, as net income, tax timing differences, and other items can significantly impact cash flows. Net cash provided by operations for the three months ended September 30, 2011, was \$10.0 million, an increase of \$0.4 million as compared to the \$9.6 million generated in the comparable prior-year period. This increase was primarily due to the favorable fluctuation in the changes in working capital components in the current-year period versus the prior-year period, including: (i) \$8.5 million from cash received as advances from customers; (ii) \$6.1 million from accounts payable; (iii) \$5.6 million from prepaid expenses and other current assets; (iv) \$4.6 million in other accrued expenses and current liabilities; and (v) \$2.5 million from inventory; as well as an increase in our net income of \$2.2 million, after giving consideration to various adjustments to net income for non-operating cash items, including depreciation and amortization, stock-based compensation, deferred taxes and provision for losses on accounts receivable, among others, for both periods. These favorable changes in cash flows from operating activities were partially offset by an unfavorable change of \$28.7 million from accounts receivables, which resulted from the year over year sales growth we experienced during the first quarter.

Cash Used in Investing Activities. Net cash used in investing activities was \$7.2 million for the three months ended September 30, 2011; an increase of \$2.5 million as compared to \$4.7 million used for the three months ended September 30, 2010. In the three months ended September 30, 2011, we used cash of \$3.2 million for acquisitions of businesses, net of cash acquired, as compared to \$2.0 million expended in the comparable prior-year period. During the three months ended September 30, 2011, we also invested \$3.2 million in capital expenditures compared to \$2.0 million during the comparable prior-year period.

Cash Provided by Financing Activities. Net cash provided by financing activities was \$1.1 million for the three months ended September 30, 2011, compared to net cash used in financing activities of \$2.0 million for the three months ended September 30, 2010. During the three months ended September 30, 2011, we paid down our debt and capital leases by \$0.1 million as compared to \$6.8 million in the comparable prior-year period. In addition, we received proceeds of \$1.1 million from the exercise of stock options and our employee stock purchase plan in the three months ended September 30, 2011 compared to \$4.8 million for the comparable prior-year period.

Borrowings

Outstanding lines of credit and current and long-term debt totaled \$2.9 million at September 30, 2011, a decrease of \$0.1 million from \$3.0 million at June 30, 2011. See Note 4 to the condensed consolidated financial statements for further discussion.

Stock Repurchase Program

Our Board of Directors has authorized a stock repurchase program under which we can repurchase up to 3,000,000 shares of our common stock. During the three months ended September 30, 2011, we did not repurchase any shares under this program and 711,205 shares were available for repurchase under the program as of September 30, 2011.

Dividend Policy

We have not paid cash dividends on our common stock in the past and have no plans to do so in the foreseeable future.

Contractual Obligations

We presented our contractual obligations in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011. Except as discussed below, there have been no significant changes in those obligations during the first three months of fiscal 2012.

As a result of current and prior-year acquisitions, we may have payment obligations based on the achievement by the acquired operations of certain sales and profitability milestones. The maximum amount of such payments under arrangements with contingent consideration caps is \$52 million. In addition, one of the purchase agreements we entered into requires royalty payments through 2022 based on the license of, or sales of products containing the technology of CXR Limited, a company acquired in 2004.

Current accounting standards require that we need to estimate the fair value of contingent payments related to a business combination as an addition to the purchase price at the time of the acquisition and record the obligation as a liability in the condensed consolidated balance sheets with subsequent revisions reflected in the condensed consolidated statements of operations. As of September 30, 2011, \$16.5 million of contingent payment obligations are included in other long-term liabilities in the accompanying condensed consolidated balance sheets, which include an additional contingent payment obligation of \$7.6 million attributable to an acquisition made by our Security division during the three months ended September 30, 2011 that was determined to be immaterial to the condensed consolidated financial statements taken as a whole.

Off Balance Sheet Arrangements

As of September 30, 2011, we did not have any significant off balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

For the three months ended September 30, 2011, no material changes occurred with respect to market risk as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011.

Market Risk

We are exposed to certain market risks, which are inherent in our financial instruments and arise from transactions entered into in the normal course of business. We may enter into derivative financial instrument transactions in order to manage or reduce market risk in connection with specific foreign-currency-denominated transactions. We do not enter into derivative financial instrument transactions for speculative purposes.

We are subject to interest rate risk on our short-term borrowings under our bank lines of credit. Borrowings under these lines of credit do not give rise to significant interest rate risk because these borrowings have short maturities and are borrowed at variable interest rates. Historically, we have not experienced material gains or losses due to interest rate changes.

Foreign Currency

We maintain the accounts of our operations in each of the following countries in the following currencies: Finland, France,

Germany, Italy and Greece (Euros), Singapore (U.S. dollars), Malaysia (U.S. dollars), United Kingdom (U.K. pounds), Norway (Norwegian kroners), India (Indian rupees), Indonesia (Indonesian rupiah), Hong Kong (Hong Kong dollars), China (Chinese yuan), Canada (Canadian dollars), Mexico (Mexican pesos), Australia (Australian dollars) and Cyprus (Cypriot pounds). Foreign currency financial statements are translated into U.S. dollars at period-end rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. We include gains and losses resulting from foreign currency transactions in income, while we exclude those resulting from translation of financial statements from income and include them as a component of accumulated other comprehensive income (AOCI). Transaction gains and losses, which were included in our condensed consolidated statements of operations, amounted to a loss of \$1.1 million and \$0.1 million during the three months ended September 30, 2010 and 2011, respectively. Furthermore, a 10% appreciation of the U.S. dollar relative to each of the local currencies would have resulted in a net increase in our operating income of approximately \$2 million in the first quarter of fiscal 2012. Conversely, a 10% depreciation of the U.S. dollar relative to each of the local currencies would have resulted in a net decrease in our operating income of approximately \$2 million in the first quarter of fiscal 2012.

Use of Derivatives

Our use of derivatives consists primarily of foreign exchange contracts. As discussed in Note 1 to the condensed consolidated financial statements, we had foreign currency forward contracts of approximately \$8.7 million outstanding as of September 30, 2011.

Importance of International Markets

International markets provide us with significant growth opportunities. However, as a result of our worldwide business operations, we are subject to various risks, including: international regulatory requirements and policy changes; difficulties in accounts receivable collection and the management of distributors; geopolitical and economic instability; currency exchange rate fluctuations; and tariff regulations. In response to these risks and others, we continue to perform ongoing credit evaluations of our customers' financial condition and, if deemed necessary, we require advance payments for sales. Also, we monitor geopolitical, economic and currency conditions around the world to evaluate whether there may be any significant effect on our international sales in the future.

Inflation

We do not believe that inflation had a material impact on our results of operations during the three months ended September 30, 2011.

Interest Rate Risk

We classify all highly liquid investments with maturity of three months or less as cash equivalents and record them in the balance sheet at fair value.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2011, the end of the period covered by this report, our management, including our Chief Executive Officer and our Chief Financial Officer, reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15 (e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Such disclosure controls and procedures are designed to ensure that material information we must disclose in this report is recorded, processed, summarized and filed or submitted on a timely basis. Based upon that evaluation our management, Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of September 30, 2011.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various claims and legal proceedings arising out of the ordinary course of business. In our opinion, after consultation with legal counsel, the ultimate disposition of such proceedings will not have a material adverse effect on our financial position, future results of operations or cash flows.

Item 1A. Risk Factors

The discussion of our business and operations in this Quarterly Report on form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission on August 26, 2011, which describe various risks and uncertainties to which we are or may become subject. There have been no material changes to the risk factors included in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds — None

Item 3. Default Upon Senior Securities — None

Item 4. (Removed and Reserved)

Item 5. Other Information

On October 24, 2011, our Board of Directors adopted a revised Code of Ethics and Conduct, a copy of which is filed as Exhibit 14.1 to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

14.1	Code of Ethics and Conduct
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document ‡
101.SCH	XBRL Taxonomy Extension Schema Document‡
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡
101.DEF	XBRL Extension Definition‡
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡

‡ XBRL information is furnished and not filed for purpose of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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, in the City of Hawthorne, State of California on the 26th day of October 2011.

OSI SYSTEMS, INC.

By: /s/ Deepak Chopra
Deepak Chopra
President and Chief Executive Officer

By: /s/ Alan Edrick
Alan Edrick
Executive Vice President and
Chief Financial Officer



OSI SYSTEMS, INC.

CODE OF ETHICS AND CONDUCT

**OSI SYSTEMS, INC.
CODE OF ETHICS AND CONDUCT**

TABLE OF CONTENTS

Introduction	1
Compliance with Laws, Rules and Regulations	1
Conflicts of Interest	1
Corporate Opportunities	2
Confidential Information	2
Competition and Fair Dealing	2
Political Contributions	2
Protection and Proper Use of Company Assets	2
Reporting Obligations	3
Policy against Retaliation	3
Additional Policies	3
Waivers and Amendments	3

OSI Systems, Inc.

Code of Ethics and Conduct

Introduction

This Code of Ethics and Conduct contains our Company's general guidelines for conducting business consistent with the highest ethical standards. This Code applies to OSI Systems, Inc. and to all of our subsidiaries worldwide.

This Code is not designed to address every ethical question that may arise during your relationship with our Company but rather to set out basic principles to guide you, whether you are an officer, director or employee of our Company. We strive to foster a culture of integrity and accountability, and this commitment should be reflected in all of our business activities.

We recognize that it may not always be clear when or if a violation of law or ethics has occurred. Similarly, we understand that not all situations are clearly identifiable violations or potential violations of this Code. Therefore, you are encouraged to seek out the appropriate Company resources, including communicating in a timely manner with your supervisor or a representative from the Human Resources Department or the Law Department, if you ever have any questions about this Code.

Compliance with Laws, Rules and Regulations

Obedying the law is the foundation on which our ethical standards are built. You have an obligation to comply with every applicable local, state, federal and foreign law or regulation in those jurisdictions in which we have a presence and operate our business. Violations of these laws can be extremely costly to us and can subject us to criminal penalties. We will not tolerate any activity that violates any laws, rules or regulations applicable to us.

Due to the nature of our business, which includes homeland security, healthcare, government contracting, international operations and technology exports, as well as the fact that we are a publicly-traded company, we are subject to a number of highly complex laws, rules and regulations, including, without limitation, securities/insider trading laws, antitrust laws, employment laws, occupational health and safety and environmental laws, intellectual property laws, and laws governing the hiring of government employees. You are expected to understand and comply with all laws, rules and regulations that apply to your job position. If any doubt exists about whether a course of action is lawful, you should seek advice immediately from your supervisor or a representative from the Law Department.

Conflicts of Interest

A conflict of interest exists when an individual's duty of undivided commercial loyalty to our Company is or is perceived to be prejudiced by actual or potential personal benefit from another source. Conflicts of interest may result directly through your activities or indirectly through the activities of a family member, a person sharing your household or a person with whom you are associated.

You should actively avoid any influence that makes it difficult to perform your work objectively and effectively. You may not participate in any private business or professional activity or have any direct or indirect financial dealing that would create a conflict between your private interests and your responsibilities to our Company. Generally, you may not solicit or accept salaries, fees, commissions or any other type of compensation from any individual or organization that conducts or seeks to conduct business with our Company or one of our competitors. You may not make a loan or extend credit to or receive a loan or credit from those who deal with our Company. You must not directly or indirectly attempt to influence any decision of our Company in order to derive a personal or financial benefit. You may not serve on a board of directors or as a trustee or on a committee of any entity (whether for profit or not-for-profit) whose interests reasonably could be expected to conflict with those of our Company.

Conflicts of interest may not always be clear-cut and easy to define. We require that you fully disclose any situations that could be expected to give rise to a conflict of interest. If you suspect that you have a conflict of interest, or something that others could reasonably perceive as a conflict of interest, you must report it immediately to your supervisor or a representative from the Human Resources Department. Conflicts of interest of our directors and executive officers may only be waived by our Board of Directors or an appropriate committee of our Board of Directors and may be required to be disclosed to the public in accordance with applicable laws, rules and regulations.

Corporate Opportunities

You may not take for yourself personally opportunities that are discovered through the use of corporate property, information or your position with the Company or use corporate property or information or your position with the Company for personal gain, either directly or indirectly, and you may not compete with our Company. You should fully disclose to your supervisor or a representative from the Human Resources Department the terms and conditions of any business opportunity covered by this Code that you wish to pursue. Business opportunities available to directors and executive officers may only be waived by our Board of Directors or an appropriate committee of our Board of Directors and may be required to be disclosed to the public in accordance with applicable laws, rules and regulations.

Confidential Information

Confidential information generated or received in our business is a valuable asset of our Company, and protecting this confidential information is fundamental to our continued success. Confidential information includes all non-public information of our Company, including without limitation, the design and manufacturing processes of our products, other intellectual property we use, business and financial information pertaining to sales, earnings, balance sheet items, business forecasts, business plans, acquisition strategies and other information of a confidential nature. You must maintain all confidential information in strict confidence. You may not disclose any confidential information unless it is authorized by our Company or required by law. Any questions or concerns regarding whether disclosure of confidential information is required by law should be promptly referred to your supervisor or to a representative from the Law Department.

When possessing or discussing confidential information, you should always be aware of your surroundings. You are encouraged not to discuss Company business in the presence of others, including other employees, who do not have a right or need to know such information. You should be particularly careful in public places.

Your obligation to protect our confidential information continues even after you leave the Company. You must return all confidential information in your possession prior to leaving the Company, and you must continue to adhere to all the confidentiality, non-disclosure, non-competition and other agreements that you may have entered into with our Company.

Competition and Fair Dealing

You must strive to deal fairly with our customers, suppliers, competitors, other third parties and one another and to conduct our business with integrity and honesty. You must respect and protect any confidential or proprietary information shared with us by customers, suppliers and other third parties. You may not take unfair advantage of others through dishonest, unethical or illegal practices, including without limitation manipulation, concealment, abuse of privileged information, misrepresentation of material facts or false or misleading statements. We seek to outperform our competitors fairly and honestly through our superior performance and not through any unethical or illegal business practices.

Political Contributions

You may not use funds or assets of our Company to support a political party, committee or candidate. We will not reimburse you for political contributions. If you wish to participate in political activities, you must do so during non-work hours and away from Company premises.

Protection and Proper Use of Company Assets

You should protect Company assets and ensure their efficient use for legitimate business purposes only. Theft, carelessness and waste have a direct impact on our profitability. The use of Company funds or assets, whether or not for personal gain, for any unlawful or improper purpose is strictly prohibited. You must ensure that you have returned all Company assets in your possession in proper condition upon leaving the Company.

Reporting Obligations

As an officer, director or employee of our Company, you have a duty to report any known or suspected violation of this Code, including any violation of the laws, rules, regulations or policies applicable to our Company. Reporting a known or suspected violation of this Code by others should not be considered an act of disloyalty, but rather an action to safeguard the reputation and integrity of our Company.

If you know or suspect a violation of this Code, including any violation of the laws, rules, regulations or policies applicable to our Company, you should immediately report the conduct to your supervisor or a representative from the Human Resources Department. If you do not feel comfortable discussing the matter with your supervisor or a representative from the Human Resources Department, you may report the matter through our Ethics Hotline, which is hosted by an independent third party provider. For information on how to access the Ethics Hotline, please contact a representative from the Human Resources Department.

It is our policy that anybody who violates this Code will be subject to appropriate discipline, up to and including termination of employment. Persons also subject to disciplinary measures include (i) individuals who fail to use reasonable care to detect a violation of this Code, (ii) individuals who, if requested to divulge information, withhold material information regarding a violation of this Code and (iii) supervisors who approve or condone violations of this Code. The determination will be based upon the facts and circumstances of each particular situation. Additionally, anybody who fails to report known or suspected violations by another officer, director or employee may also be subject to appropriate discipline.

If you have any questions about this Code or how it applies to a particular situation or transaction, you should contact your supervisor or a representative from the Human Resources Department. If you become aware of a situation that you believe may be in conflict with this Code, you should immediately contact your supervisor or a representative from the Human Resources Department. We will keep the information that you provide during an investigation confidential to the greatest extent possible.

Policy against Retaliation

All questions and reports of known or suspected violations of the law or this Code will be treated with sensitivity and discretion. We strictly prohibit retaliation against anybody who, in good faith, seeks help or reports known or suspected violations or matters of concern. Any reprisal or retaliation against an officer, director or employee because such individual, in good faith, sought help or filed a report will be subject to disciplinary action, including potential termination of employment. If you are concerned about retaliation or believe that you have been subject to retaliation for reporting a possible violation of this Code, you should immediately contact your supervisor or a representative from the Human Resources Department.

Additional Policies

In addition to the above requirements, further ethics and conduct policies with which you are required to comply include:

Policy 1300 – Environmental Health and Safety

Policy 1302 – Employee Handbook

Policy 1702 – Anti-Corruption Policy

Policy 1703 – Insider Trading Policy

Waivers and Amendments

Waivers of this Code will be granted on a case-by-case basis and only in appropriate circumstances. Any waiver of this Code for directors and executive officers may be made only by our Board of Directors or the appropriate committee of our Board of Directors. This Code and the matters it addresses are neither a contract of employment nor a guarantee of continuing Company policy. We reserve the right to amend, supplement or discontinue this Code and the matters addressed herein at any time without prior notice. Changes to this Code will be posted to our website.

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Deepak Chopra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2011

/s/ Deepak Chopra

Deepak Chopra
Chief Executive Officer

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan Edrick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2011

/s/ Alan Edrick
Alan Edrick
Chief Financial Officer

CERTIFICATION

Certification of Chief Executive Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deepak Chopra, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in this Report.

Date: October 26, 2011

/s/ Deepak Chopra

Deepak Chopra

Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION

Certification of Chief Financial Officer

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Edrick, Chief Financial Officer of the Company, certify, pursuant to 18, U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in this Report.

Date: October 26, 2011

/s/ Alan Edrick

Alan Edrick

Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
