

OSI SYSTEMS INC  
Form 10-Q  
October 26, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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(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

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**OSI SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

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**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)

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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.

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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.

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OSI SYSTEMS, INC.

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Table of Contents**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)**

	<b>June 30, 2011</b>	<b>September 30, 2011</b>
<b>ASSETS</b>		
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
<b>Total current assets</b>	<b>405,286</b>	<b>418,076</b>
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
<b>Total assets</b>	<b>\$ 584,916</b>	<b>\$ 598,272</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
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
<b>Total current liabilities</b>	<b>160,981</b>	<b>162,090</b>
Long-term debt	2,756	2,641
Other long-term liabilities	36,379	44,350
<b>Total liabilities</b>	<b>200,116</b>	<b>209,081</b>
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

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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	\$ 584,916	\$ 598,272

See accompanying notes to condensed consolidated financial statements

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

	<b>For the Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2011</b>	
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	\$	3,392	\$	4,761
Net income per share:				
Basic	\$	0.18	\$	0.24
Diluted	\$	0.18	\$	0.24
Shares used in per share calculation:				
Basic		18,433		19,576
Diluted		19,078		20,089

See accompanying notes to condensed consolidated financial statements

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**OSI SYSTEMS, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(amounts in thousands)

(Unaudited)

	<b>For the Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2011</b>	
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	\$	8,464	\$	1,771

See accompanying notes to condensed consolidated financial statements



Table of Contents**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	9,596	9,994
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	(4,731)	(7,206)
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	(1,982)	1,054
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	\$ 55,569	\$ 58,363
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.



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**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.

Table of Contents*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):

	<b>Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2011</b>	
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:

<b>June 30,</b>	<b>September 30,</b>
<b>2011</b>	<b>2011</b>

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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.

Table of Contents*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):

	June 30, 2011	September 30, 2011
<b>Accounts receivable</b>		
Trade receivables	\$ 142,509	\$ 136,711
Less: allowance for doubtful accounts	(5,793)	(6,104)
Total	\$ 136,716	\$ 130,607

	June 30, 2011	September 30, 2011
<b>Inventories, net</b>		
Raw materials	\$ 92,373	\$ 93,072
Work-in-process	37,202	39,481
Finished goods	40,059	55,404
Total	\$ 169,634	\$ 187,957

	June 30, 2011	September 30, 2011
<b>Property and equipment, net</b>		

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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		133,110		136,221
Less: accumulated depreciation and amortization		(78,093)		(80,602)
Property and equipment, net	\$	55,017	\$	55,619



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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	\$ 26,427	\$ 35,530	\$ 13,631	\$ 75,588

Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	Gross Carrying Value	June 30, 2011 Accumulated Amortization	Intangibles Net	Gross Carrying Value	September 30, 2011 Accumulated Amortization	Intangibles Net
<b>Amortizable assets:</b>							
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		47,450	23,174	24,276	47,467	23,460	24,007
<b>Non-amortizable assets:</b>							
Trademarks		9,431		9,431	9,408		9,408
Total intangible assets		\$ 56,881	\$ 23,174	\$ 33,707	\$ 56,875	\$ 23,460	\$ 33,415

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	\$ 24,007



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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):

	<b>June 30,</b>		<b>September 30,</b>
	<b>2011</b>		<b>2011</b>
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	\$ 2,756	\$	2,641

**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):

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

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):

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

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.

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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):

	<b>Three Months Ended</b>			
	<b>September 30,</b>			
	<b>2010</b>		<b>2011</b>	
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	\$	11,395	\$	14,438

**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.



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

	Three Months Ended	
	September 30,	
	2010	2011
<b>Revenues by Segment:</b>		
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	\$ 128,453	\$ 161,317
<b>Revenues by Geography:</b>		
North America	\$ 97,002	\$ 107,822
Europe	21,064	35,340
Asia	20,866	29,046
Intersegment revenues elimination	(10,479)	(10,891)
Total	\$ 128,453	\$ 161,317

	Three Months Ended	
	September 30,	
	2010	2011
<b>Operating income (loss) by Segment:</b>		
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	\$ 5,435	\$ 7,610

	June 30,	September 30,
	2011	2011
<b>Assets by Segment:</b>		
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	\$ 584,916	\$ 598,272

(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.

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**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

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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	\$ 128.5		\$ 161.3		\$ 32.8	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.

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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

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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	%
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	\$	41.5	32.3%	\$	45.3	28.1%	3.8	9%

**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.

Table of Contents**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.



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*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.

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**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,

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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.

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**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.

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**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

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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.

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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, 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