

OSI SYSTEMS INC  
Form 10-Q  
April 25, 2012  
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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 March 31, 2012**

**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 000-23125**

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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 April 23, 2012, there were 19,854,798 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>March 31, 2012</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 55,619	\$ 90,787
Accounts receivable, net	136,716	157,830
Inventories	169,634	202,452
Deferred income taxes	17,156	17,620
Prepaid expenses and other current assets	26,161	17,277
Total current assets	405,286	485,966
Property and equipment, net	55,017	91,160
Goodwill	70,292	77,365
Intangible assets, net	33,707	33,537
Other assets	20,614	33,713
Total assets	\$ 584,916	\$ 721,741
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 66,462	\$ 64,081
Accrued payroll and employee benefits	24,417	22,135
Advances from customers	25,191	22,716
Accrued warranties	14,530	16,137
Deferred revenue	15,956	13,290
Other accrued expenses and current liabilities	14,425	16,634
Total current liabilities	160,981	154,993
Long-term debt	2,756	2,579
Advances from customers		100,000
Other long-term liabilities	36,379	45,570
Total liabilities	200,116	303,142
Commitments and contingencies (Note 7)		
Stockholders Equity:		
Preferred stock, \$0.001 par value authorized, 10,000,000 shares; no shares issued or outstanding	272,552	279,029

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Common stock, \$0.001 par value authorized, 100,000,000 shares; issued and outstanding, 19,507,065 at June 30, 2011 and 19,853,936 shares at March 31, 2012		
Retained earnings	110,103	139,740
Accumulated other comprehensive income (loss)	2,145	(170)
Total stockholders equity	384,800	418,599
Total liabilities and stockholders equity	\$ 584,916	\$ 721,741

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 amounts)****(Unaudited)**

	For the Three Months Ended		For the Nine Months Ended	
	March 31,		March 31,	
	2011	2012	2011	2012
Revenues	\$ 174,931	\$ 208,439	\$ 472,671	\$ 557,749
Cost of goods sold	112,678	139,308	303,497	369,937
Gross profit	62,253	69,131	169,174	187,812
Operating expenses:				
Selling, general and administrative expenses	37,116	37,063	103,050	107,409
Research and development	12,436	12,932	33,509	35,358
Restructuring and other charges	905	931	2,064	931
Total operating expenses	50,457	50,926	138,623	143,698
Income from operations	11,796	18,205	30,551	44,114
Interest expense and other income, net	612	(792)	(484)	(2,312)
Income before provision for income taxes	12,408	17,413	30,067	41,802
Provision for income taxes	3,642	4,838	8,691	12,165
Net income	\$ 8,766	\$ 12,575	\$ 21,376	\$ 29,637
Earnings per share:				
Basic	\$ 0.46	\$ 0.63	\$ 1.14	\$ 1.51
Diluted	\$ 0.45	\$ 0.62	\$ 1.10	\$ 1.46
Shares used in per share calculation:				
Basic	18,978	19,815	18,721	19,692
Diluted	19,687	20,433	19,424	20,253

See accompanying notes to condensed consolidated financial statements.

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

	<b>For the Three Months Ended March 31,</b>		<b>For the Nine Months Ended March 31,</b>	
	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>
Net income	\$ 8,766	\$ 12,575	\$ 21,376	\$ 29,637
Other comprehensive income (loss):				
Foreign currency translation adjustment	2,983	2,863	6,778	(2,529)
Other	(169)	205	1,005	214
Other comprehensive income (loss)	2,814	3,068	7,783	(2,315)
Comprehensive income	\$ 11,580	\$ 15,643	\$ 29,159	\$ 27,322

See accompanying notes to condensed consolidated financial statements.



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(amounts in thousands)

(Unaudited)

	For the Nine Months Ended	
	March 31,	
	2011	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 21,376	\$ 29,637
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,819	14,899
Stock based compensation expense	4,284	5,345
Provision for losses on accounts receivable	761	52
Equity in earnings of unconsolidated affiliates	(391)	(155)
Deferred income taxes	1,071	(40)
Other	170	47
Changes in operating assets and liabilities:		
Accounts receivable	(1,686)	(20,948)
Inventories	(31,149)	(33,468)
Prepaid expenses and other current assets	(2,101)	(3,946)
Accounts payable	24,078	(2,976)
Accrued payroll and related expenses	(4,061)	(2,052)
Advances from customers	(6,019)	98,853
Accrued warranties	2,839	1,659
Deferred revenue	1,451	(20)
Other accrued expenses and current liabilities	204	(705)
Net cash provided by operating activities	24,646	86,182
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(7,506)	(44,199)
Acquisition of businesses-net of cash acquired	(5,558)	(3,189)
Acquisition of intangible and other assets	(2,897)	(3,085)
Net cash used in investing activities	(15,961)	(50,473)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(32,546)	(163)
Payments of capital lease obligations	(710)	
Proceeds from exercise of stock options and employee stock purchase plan	9,912	4,796
Repurchase of common shares		(3,664)
Net cash provided by (used in) financing activities	(23,344)	969
EFFECT OF EXCHANGE RATE CHANGES ON CASH	2,300	(1,510)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(12,359)</b>	<b>35,168</b>
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	51,989	55,619
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 39,630	\$ 90,787
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,062	\$ 2,184
Income taxes paid	\$ 5,673	\$ 5,460

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, and a provider of security screening services. The Company sells its products and services 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. 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, 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 and nine months ended March 31, 2012, 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. Stock options to purchase a total of 0.1 million shares, of common stock for the nine months ended March 31, 2011 were not included in diluted earnings per share calculations because to do so would have been antidilutive, while no such shares were excluded from the calculations for the nine months ended March 31, 2012, and no shares were excluded from the calculation for the three months ended March 31, 2012 and 2011, respectively.

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The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2011		2012		2011		2012	
Net income available to common stockholders	\$	8,766	\$	12,575	\$	21,376	\$	29,637
Weighted average shares outstanding basic		18,978		19,815		18,721		19,692
Dilutive effect of stock options and warrants		709		618		703		561
Weighted average of shares outstanding diluted		19,687		20,433		19,424		20,253
Basic net income per share	\$	0.46	\$	0.63	\$	1.14	\$	1.51
Diluted net income per share	\$	0.45	\$	0.62	\$	1.10	\$	1.46

### *Fair Value of Financial Instruments*

The Company's financial instruments consist primarily of cash, marketable securities, derivative instruments, 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		March 31, 2012	
Level 1	\$	8,115	\$	9,801
Level 2		(187)		253
Total	\$	7,928	\$	10,054

### *Derivative Instruments and Hedging Activity*

The Company's use of derivatives consists primarily of foreign exchange contracts. As of March 31, 2012, the Company had outstanding foreign currency forward contracts of approximately \$6.2 million. These contracts do not meet the criteria as an effective cash flow hedge. Therefore, the net gain (loss) is reported in Interest expense and other income, 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*

In December 2011, the Financial Accounting Standards Board issued accounting standards update ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which is intended to facilitate comparison between entities reporting under U.S. GAAP and IFRS in disclosing derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. Both the gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement are required to be disclosed. The ASU is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. The Company has not yet adopted this update and is currently evaluating the impact it may have on its financial disclosures.

In December 2011, the Financial Accounting Standards Board issued accounting standards update ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the effective date pertaining to reclassification adjustments out of accumulated other comprehensive income in Accounting Standards Update 2011-05, *Comprehensive Income* (Topic 220): Presentation of Comprehensive Income. The ASU is effective at the same time as the amendments in Update 2011-05. The Company early adopted ASU No. 2011-05 and will await the outcome from the FASB's further evaluation of the reclassification presentation treatment.

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

	<b>June 30, 2011</b>		<b>March 31, 2012</b>
<b>Accounts receivable</b>			
Trade receivables	\$ 142,509	\$	162,506
Less: allowance for doubtful accounts	(5,793)		(4,676)
Accounts receivable, net	\$ 136,716	\$	157,830

	<b>June 30, 2011</b>		<b>March 31, 2012</b>
<b>Inventories, net</b>			
Raw materials	\$ 92,373	\$	103,528
Work-in-process	37,202		33,177
Finished goods	40,059		65,747
Total	\$ 169,634	\$	202,452

	<b>June 30, 2011</b>		<b>March 31, 2012</b>
<b>Property and equipment</b>			
Land	\$ 5,296	\$	5,278
Buildings and improvements	9,638		11,936
Leasehold improvements	12,989		13,369
Equipment and tooling	70,272		73,500
Furniture and fixtures	4,431		4,501
Computer equipment	14,034		14,532
Software	14,618		15,313
Construction in process	1,832		33,829
Total	133,110		172,258
Less: accumulated depreciation and amortization	(78,093)		(81,098)
Property and equipment, net	\$ 55,017	\$	91,160

Depreciation expense totaled \$10.6 million and \$11.5 million for the nine months ended March 31, 2011 and 2012, respectively; and \$3.6 million and \$4.0 million for the three months ended March 31, 2011 and 2012, respectively.

**3. Goodwill and Intangible Assets**

The goodwill acquired during the nine months ended March 31, 2012 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 nine month period ended March 31, 2012, are as follows (in thousands):

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	<b>Optoelectronics and</b>				
	<b>Security</b>	<b>Healthcare</b>	<b>Manufacturing</b>	<b>Consolidated</b>	
Balance as of June 30, 2011	\$ 21,040	\$ 35,612	\$ 13,640	\$ 70,292	
Goodwill acquired or adjusted during the period	8,502	344	(1,435)	7,411	
Foreign currency translation adjustment	(304)	(18)	(16)	(338)	
Balance as of March 31, 2012	\$ 29,238	\$ 35,938	\$ 12,189	\$ 77,365	



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Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	Gross Carrying Value	June 30, 2011		March 31, 2012			
			Accumulated Amortization	Intangibles Net	Accumulated Amortization	Intangibles Net		
<b>Amortizable assets:</b>								
Software development costs	5 years	\$ 13,090	\$ 3,807	\$ 9,283	\$ 14,549	\$ 3,848	\$ 10,701	
Patents	15 years	2,975	449	2,526	4,095	491	3,604	
Core technology	10 years	2,151	1,376	775	2,141	1,530	611	
Developed technology	13 years	18,823	10,718	8,105	18,639	11,986	6,653	
Customer relationships/backlog	7 years	10,411	6,824	3,587	10,408	7,866	2,542	
<b>Total amortizable assets</b>		<b>47,450</b>	<b>23,174</b>	<b>24,276</b>	<b>49,832</b>	<b>25,721</b>	<b>24,111</b>	
<b>Non-amortizable assets:</b>								
Trademarks		9,431		9,431	9,426		9,426	
<b>Total intangible assets</b>		<b>\$ 56,881</b>	<b>\$ 23,174</b>	<b>\$ 33,707</b>	<b>\$ 59,258</b>	<b>\$ 25,721</b>	<b>\$ 33,537</b>	

Amortization expense related to intangibles assets totaled \$3.2 million and \$3.4 million for the nine months ended March 31, 2011 and 2012, respectively; and \$1.1 million for both the three months ended March 31, 2011 and 2012. At March 31, 2012, the estimated future amortization expense was as follows (in thousands):

2012 (remaining 3 months)	\$	1,107
2013		4,228
2014		3,043
2015		1,648
2016		1,516
2017		1,316
2018 and thereafter		11,253
<b>Total</b>	<b>\$</b>	<b>24,111</b>

#### **4. Borrowings**

The Company has a credit agreement with a syndicate of banks for a \$425 million revolving credit facility. This credit agreement, as amended, maturing November 2016, consists of a \$425 million revolving credit facility, including a \$375 million sub-limit for letters of credit. Borrowings under this facility bear interest at the London Interbank Offered Rate (LIBOR) plus a margin of 1.50%. This margin is determined by the Company's consolidated leverage ratio and may range from 1.5% to 2.0%. 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. As of March 31, 2012, there was no debt outstanding under the revolving credit facility and \$182.0 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 March 31, 2012, \$9.5 million was outstanding under these letter-of-credit facilities, while no debt was outstanding. As of March 31, 2012, the total amount available under these credit facilities was \$21.3 million, with a total cash

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borrowing sub-limit of \$4.2 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 March 31, 2012, \$2.8 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>March 31,</b>
	<b>2011</b>		<b>2012</b>
Twenty-year term loan due in fiscal 2024	\$ 2,977	\$	2,798
Less current portion of long-term debt (in other accrued expenses and current liabilities)	221		219
Long-term portion of debt	\$ 2,756	\$	2,579

Table of Contents**5. Stock-based Compensation**

As of March 31, 2012, 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 March 31,				Nine Months Ended March 31,			
	2011		2012		2011		2012	
Cost of goods sold	\$	111	\$	125	\$	281	\$	355
Selling, general and administrative		1,358		1,695		3,827		4,804
Research and development		63		63		176		186
Total stock-based compensation expense	\$	1,532	\$	1,883	\$	4,284	\$	5,345

As of March 31, 2012, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted was approximately \$14.4 million. The Company expects to recognize these costs over a weighted-average period of 2.7 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 March 31,				Nine Months Ended March 31,			
	2011		2012		2011		2012	
Service cost	\$	130	\$	160	\$	408	\$	515
Amortization of net loss		112		112		335		336
Net periodic pension expense	\$	242	\$	272	\$	743	\$	851

For the three months ended March 31, 2011 and 2012, the Company made contributions of \$0.1 million and \$0.5 million, respectively to these defined benefit plans. For the nine months ended March 31, 2011 and 2012, the Company made contributions of \$1.0 million and \$0.6 million, respectively, to these defined benefit plans.

In addition, the Company maintains various defined contribution plans. For each of the three months ended March 31, 2011 and 2012, the Company made contributions of \$0.9 million to these defined contribution plans. For the nine months ended March 31, 2011 and 2012, the Company made contributions of \$2.8 million and \$3.0 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 of certain sales or profitability milestones by the acquired operations. The maximum amount of such payments under arrangements with contingent consideration caps is \$62 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.

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For acquisitions that occurred prior to fiscal year 2010, the Statement of Financial Accounting Standards for *Business Combinations*, the then prevailing accounting 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 sheets with subsequent revisions reflected in the condensed consolidated statements of operations. As of March 31, 2012, \$14.5 million of contingent payment obligations are included in other long-term liabilities in the accompanying condensed consolidated balance sheets.

*Advances from Customers*

The Company receives advances from customers associated with certain projects. In January 2012, the Company entered into an agreement with the Mexican government to provide a turnkey security screening solution along the country's borders, and in its ports and airports. Associated with the agreement, the Company was provided an advance totaling \$100 million. The Company is obligated to provide a guarantee until the advance has been earned.

*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 experience and anticipated expenses. 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 March 31,		Nine Months Ended March 31,	
	2011	2012	2011	2012
Balance at beginning of period	\$ 12,069	\$ 15,382	\$ 10,930	\$ 14,530
Additions	3,175	2,052	6,145	4,702
Reductions for warranty repair costs and adjustments	(1,188)	(1,297)	(3,019)	(3,095)
Balance at end of period	\$ 14,056	\$ 16,137	\$ 14,056	\$ 16,137

Table of Contents**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 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.

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2012	2011	2012
<b>Revenues by Segment:</b>				
Security division	\$ 88,173	\$ 111,796	\$ 215,973	\$ 273,370
Healthcare division	51,114	56,333	152,837	162,046
Optoelectronics and Manufacturing division, including intersegment revenues	47,865	49,975	137,458	154,425
Intersegment revenues elimination	(12,221)	(9,665)	(33,597)	(32,092)
<b>Total</b>	<b>\$ 174,931</b>	<b>\$ 208,439</b>	<b>\$ 472,671</b>	<b>\$ 557,749</b>
<b>Revenues by Geography:</b>				
North America	\$ 134,179	\$ 143,865	\$ 354,277	\$ 380,074
Europe	31,072	41,579	86,146	115,387
Asia	21,901	32,660	65,845	94,380
Intersegment revenues elimination	(12,221)	(9,665)	(33,597)	(32,092)
<b>Total</b>	<b>\$ 174,931</b>	<b>\$ 208,439</b>	<b>\$ 472,671</b>	<b>\$ 557,749</b>

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	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2012	2011	2012
Operating income (loss) by Segment:				
Security division	\$ 8,177	\$ 10,557	\$ 17,292	\$ 22,403
Healthcare division	2,274	6,254	10,536	16,977
Optoelectronics and Manufacturing division	4,284	3,558	11,975	12,947
Corporate	(2,805)	(2,552)	(8,053)	(8,458)
Eliminations (1)	(134)	388	(1,199)	245
Total	\$ 11,796	\$ 18,205	\$ 30,551	\$ 44,114



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	<b>June 30,</b>		<b>March 31,</b>
	<b>2011</b>		<b>2012</b>
Assets by Segment:			
Security division	\$ 245,068	\$	367,977
Healthcare division	152,048		155,434
Optoelectronics and Manufacturing division	109,961		114,383
Corporate	84,082		89,944
Eliminations (1)	(6,243)		(5,997)
Total	\$ 584,916	\$	721,741

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(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, and provider of screening services. 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 49% and 46% of our total consolidated revenues for the nine months ended March 31, 2012 and 2011, 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. We believe that our wide-ranging product portfolio together with our ability to provide turnkey screening solutions position us to competitively pursue security and inspection opportunities as they arise throughout the world.

During our third quarter, our Security division won a six-year agreement with the Mexican government to provide a turnkey security screening solution along the country's borders, and in its ports and airports. Although we have yet to recognize any revenue related to this agreement, we have incurred expenses and made capital expenditures in preparation of its fulfillment.

*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 32% of our total consolidated revenues for the nine months ended March 31, 2012 and 2011, 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 anticipated lower sales of patient monitoring, diagnostic cardiology and anesthesia systems products than what we had historically experienced, which negatively 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, 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 22% of our total consolidated revenues for both the nine months ended March 31, 2012 and 2011.

***Results of Operations for the Three Months Ended March 31, 2012 Compared to Three Months Ended March 31, 2011*****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.

(in millions)	Q3 2011	% of Net Sales	Q3 2012	% of Net Sales	\$ Change	% Change
Security division	\$ 88.2	51%	\$ 111.8	54%	\$ 23.6	27%
Healthcare division	51.1	29%	56.3	27%	5.2	10%
Optoelectronics and Manufacturing division	35.6	20%	40.3	19%	4.7	13%
Total revenues	\$ 174.9	100%	\$ 208.4	100%	\$ 33.5	19%

Total revenues for the three months ended March 31, 2012, increased \$33.5 million, or 19%, to \$208.4 million, from \$174.9 million for the comparable prior-year period.

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Revenues for the Security division for the three months ended March 31, 2012, increased \$23.6 million, or 27%, to \$111.8 million, from \$88.2 million for the comparable prior-year period. The increase was primarily attributable to a \$20.2 million increase in sales of equipment, primarily attributable to our performance as a prime contractor and hardware systems integrator on a large ongoing contract.

Revenues for the Healthcare division for the three months ended March 31, 2012, increased \$5.2 million, or 10%, to \$56.3 million, from \$51.1 million for the comparable prior-year period. The increase was primarily attributable to increased sales in our North American region. Among our product lines, the overall increase was a result of: (i) a \$4.3 million increase in patient monitoring product revenues; (ii) a \$0.6 million increase in cardiology product revenue and; (iii) a \$0.3 million increase in anesthesia product revenue.

Revenues for the Optoelectronics and Manufacturing division for the three months ended March 31, 2012, increased by \$4.7 million, or 13%, to \$40.3 million, from \$35.6 million for the comparable prior-year period. This increase was primarily attributable to: (i) a \$1.1 million increase in commercial optoelectronics sales and (ii) a \$3.6 million increase in contract manufacturing sales.

Table of Contents**Gross Profit**

(in millions)	Q3		% of		Q3	
	2011		Net Sales	2012		% of
						Net Sales
Gross profit	\$	62.3	35.6%	\$	69.1	33.2%

Gross profit increased \$6.8 million, or 11%, to \$69.1 million for the three months ended March 31, 2012, from \$62.3 million for the comparable prior-year period, primarily as a result of a 19% increase in revenue. The gross margin decreased to 33.2% from 35.6% for the comparable prior-year period. The decrease was attributable to the faster growth within our Security division ( 27% growth) and our Optoelectronics and Manufacturing division (13% growth), which generate lower gross margins than our Healthcare division (10% growth). In addition, product mix within our Security division negatively impacted gross margins.

**Operating Expenses**

(in millions)	Q3		Q3				
	2011	% of	2012	% of	\$ Change	% Change	
		Net Sales		Net Sales			
Selling, general and administrative	\$	37.1	21.2%	\$	37.1	17.8%	0%
Research and development		12.5	7.2%		12.9	6.2%	3%
Restructuring and other charges		0.9	0.5%		0.9	0.4%	0%
Total operating expenses	\$	50.5	28.9%	\$	50.9	24.4%	1%

**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 March 31, 2012, SG&A expenses at \$37.1 million did not change from the comparable prior-year period even though revenue increased by 19%. As a percentage of revenues, SG&A expenses were 17.8% for the three months ended March 31, 2012, compared to 21.2% 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 March 31, 2012, such expenses increased by \$0.4 million, or 3%, to \$12.9 million, from \$12.5 million for the comparable prior-year period. As a percentage of revenues, R&D expenses were 6.2% for the three months ended March 31, 2012, compared to 7.2% for the comparable prior-year period.

**Restructuring and other charges.** In response to the challenging worldwide economic conditions, we continued to optimize our cost structure during the third quarter of fiscal 2012. In conjunction with these efforts, we incurred non-recurring restructuring and other charges of \$0.9 million in our Optoelectronics and Manufacturing division, primarily for employee severance partly related to facility consolidation during the three months ended March 31, 2012. In the three months ended March 31, 2011 we also incurred non-recurring restructuring charges of \$0.9 million, made up of \$0.8 million of charges in our Healthcare division and \$0.1 million in our Corporate segment, primarily for employee severance.

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**Interest expense and other income, net.** For the three months ended March 31, 2012, interest expense and other income, net, amounted to a charge of \$0.8 million, as compared to a credit of \$0.6 million for the same prior-year period. The increase in net expense was due to higher utilization of the letters-of-credit facility and a reduction in the liability for contingent acquisition consideration in the prior-year period.

**Income taxes.** For the three months ended March 31, 2012, our income tax provision was \$4.8 million, compared to \$3.6 million for the comparable prior-year period. Our effective tax rate for the three months ended March 31, 2012, was 27.8%, compared to 29.4% 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 such countries as well as due to the impact of permanent taxable differences.

### *Results of Operations for the Nine Months Ended March 31, 2012 Compared to Nine Months Ended March 31, 2011*

#### 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.

(in millions)	YTD Q3 2011	% of Net Sales	YTD Q3 2012	% of Net Sales	\$ Change	% Change
Security division	\$ 216.0	46%	\$ 273.4	49%	\$ 57.4	27%
Healthcare division	152.8	32%	162.0	29%	9.2	6%
Optoelectronics and Manufacturing division	103.9	22%	122.3	22%	18.4	18%
Total revenues	\$ 472.7	100%	\$ 557.7	100%	\$ 85.0	18%

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Net revenues for the nine months ended March 31, 2012, increased \$85.0 million, or 18%, to \$557.7 million, from \$472.7 million for the comparable prior-year period.

Revenues for the Security division for the nine months ended March 31, 2012, increased \$57.4 million, or 27%, to \$273.4 million, from \$216.0 million for the comparable prior-year period. The increase was primarily attributable to: (i) a \$43.0 million, or 25%, increase in equipment sales, primarily attributable to our performance as a prime contractor and hardware systems integrator on a large ongoing contract; and (ii) an \$11.7 million, or 27%, increase in service revenue. The increase in service revenue was due to the growing installed equipment base, from which we derive service revenues as warranty periods expire.

Revenues for the Healthcare division for the nine months ended March 31, 2012, increased \$9.2 million, or 6%, to \$162.0 million, from \$152.8 million for the comparable prior-year period. The increase was primarily attributable to a 14% increase in sales in our North American region, partially offset by a 6% decrease in our European/Middle East/Africa region. Among our product lines, the overall increase was a result of a \$9.6 million increase in patient monitoring product revenues, which was partially offset by a \$0.7 million decrease in cardiology product revenues.

Revenues for the Optoelectronics and Manufacturing division for the nine months ended March 31, 2012, increased \$18.4 million, or 18%, to \$122.3 million, from \$103.9 million for the comparable prior-year period. This increase was primarily attributable to: (i) a \$11.2 million, or 23%, increase in commercial optoelectronic sales and (ii) a \$7.3 million, or 13%, increase in contract manufacturing sales.

### Gross Profit

(in millions)	YTD Q3 2011		% of Net Sales		YTD Q3 2012		% of Net Sales	
Gross profit	\$	169.2	35.8%	\$	187.8	33.7%		

Gross profit increased \$18.6 million, or 11%, to \$187.8 million for the nine months ended March 31, 2012, from \$169.2 million for the comparable prior-year period, primarily as a result of an 18% increase in revenue. The gross margin during the period declined to 33.7% from 35.8% for the comparable prior-year period. The decrease was mainly due to relatively faster growth within our Security division (which grew at 27%) and our Optoelectronics and Manufacturing division (which grew at 18%), which generate lower gross margins than our Healthcare division (which grew by 6%). In addition, product mix within our Security division negatively impacted gross margin.

### Operating Expenses

(in millions)	YTD Q3 2011		% of Net Sales		YTD Q3 2012		% of Net Sales		\$ Change	% Change
Selling, general and administrative	\$	103.0	21.8%	\$	107.4	19.3%	\$	4.4	4%	
Research and development		33.5	7.1%		35.4	6.3%		1.9	6%	



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Restructuring and other charges		2.1		0.4%		0.9		0.2%		(1.2)		(57)%
Total operating expenses	\$	138.6		29.3%	\$	143.7		25.8%	\$	5.1		4%

**Selling, general and administrative expenses.** For the nine months ended March 31, 2012, SG&A expenses increased by \$4.4 million, or 4%, to \$107.4 million, from \$103.0 million for the comparable prior-year period. This \$4.4 million increase was primarily attributable to an increase in SG&A costs to support the 18% revenue growth. As a percentage of revenues, SG&A expenses were 19.3% for the nine months ended March 31, 2012, compared to 21.8% for the comparable prior-year period.

**Research and development.** R&D expenses include research related to new product development and product enhancement expenditures. For the nine months ended March 31, 2012, such expenses increased \$1.9 million, or 6%, to \$35.4 million, from \$33.5 million for the comparable prior-year period. As a percentage of revenues, research and development expenses were 6.3% for the nine months ended March 31, 2012, compared to 7.1% for the comparable prior-year period. The increase in R&D expenses for the nine month period ended March 31, 2012, primarily resulted from an increase in R&D investment mainly in our Security division but also in the Healthcare division, in support of multiple new product introductions.

**Restructuring and other charges.** In response to the challenging worldwide economic conditions, we continued to optimize our cost structure during fiscal 2012. In conjunction with these efforts, we incurred non-recurring restructuring and other charges of \$0.9 million in our Optoelectronics and Manufacturing division, primarily for employee severance partly related to facility consolidation during the nine months ended March 31, 2012. In the nine months ended March 31, 2011 we incurred non-recurring restructuring charges of \$2.1 million, made up of \$1.2 million of charges in our Healthcare division and \$0.9 million in our Corporate segment, primarily for employee severance.

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**Interest expense and other income, net.** For the nine months ended March 31, 2012, interest expense and other income, net, amounted to \$2.3 million as compared to \$0.5 million for the same 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 as well as a reduction in the liability for contingent acquisition consideration in the prior-year period.

**Income taxes.** For the nine months ended March 31, 2012, our income tax provision was \$12.2 million, compared to \$8.7 million for the comparable prior-year period. Our effective tax rate for the nine months ended March 31, 2012, was 29.1%, compared to 28.9% 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 such countries as well 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 \$90.8 million at March 31, 2012, an increase of \$35.2 million from \$55.6 million at June 30, 2011. The changes in our working capital and cash and cash equivalent balances during the nine months ended March 31, 2012 are described below.

(in millions)	June 30, 2011	March 31, 2012	% Change
Working capital	\$ 244.3	\$ 331.0	35%
Cash and cash equivalents	55.6	90.8	63%

*Working Capital.* Working capital increased primarily due to: (i) a \$35.2 million increase in cash and cash equivalents mainly driven by a \$100 million customer advance, partially offset by a \$44.2 million use of cash for capital spending ; (ii) a \$32.8 million increase in inventory, primarily in our Security division, to support future order fulfillment; (iii) a \$21.1 million increase in accounts receivable driven by our 19% third quarter revenue growth; and (iv) a \$2.7 million decrease in deferred revenue. These increases to working capital were partially offset by an \$8.9 million decrease in prepaid expenses and other current assets.

(in millions)	YTD Q3 2011	YTD Q3 2012	\$ Change
Cash provided by operating activities	\$ 24.6	\$ 86.2	\$ 61.6
Cash used in investing activities	(16.0)	(50.5)	(34.5)
Cash provided by (used in) financing activities	(23.3)	1.0	24.3

*Cash Provided by Operating Activities.* Cash flows from operating activities can fluctuate significantly from period to period, as net income, tax timing differences, customer collections, vendor payments and other items can significantly impact cash flows. Net cash provided by operations for the nine months ended March 31, 2012, was \$86.2 million, an increase of \$61.6 million from the \$24.6 million provided in the comparable prior-year period. This increase in net cash provided was primarily due to the changes in working capital in the current-year period versus the prior-year period resulting in: (i) a \$104.9 million increase in cash through customer advances; (ii) a \$8.7 million increase in net income for the nine months ended March 31, 2012, after giving consideration to non-cash operating items including depreciation and amortization, stock-based compensation and deferred taxes, among others, for both periods. These favorable changes in cash flow were partially offset by the following

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changes in working capital: (i) a \$27.1 million decrease in cash from changes in accounts payable; (ii) a \$19.3 million increase in account receivables primarily in our Security division driven mainly by the 27% increase in Security division revenues; (iii) a \$2.3 million increase in the change in inventory, and (iv) a \$1.8 million increase in the change in prepaid expenses and other current assets.

*Cash Used in Investing Activities.* Net cash used in investing activities was \$50.5 million for the nine months ended March 31, 2012, compared to \$16.0 million for the nine months ended March 31, 2011. During the nine months ended March 31, 2012, we invested \$44.2 million in capital expenditures primarily in our Security division related to the fulfillment of a large turn-key screening services agreement with the Mexican government, as compared to \$7.5 million during the comparable prior-year period. During the nine months ended March 31, 2012, we also paid \$3.2 million for the acquisition of businesses, as compared to \$5.6 million during the comparable prior-year period. During the nine months ended March 31, 2012, we paid \$3.4 million for the acquisition of intangible assets as compared to \$2.9 million during the comparable prior-year period.

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*Cash Used in Financing Activities.* Net cash provided by financing activities was \$1.0 million for the nine months ended March 31, 2012, compared to net cash used in financing activities of \$23.3 million for the nine months ended March 31, 2011. During the nine months ended March 31, 2012, we paid down our debt by \$0.2 million. During the nine months ended March 31, 2011, in conjunction with a new \$250 million revolving credit facility, we repaid \$32.5 million in term debt issued under the former credit facility. We also paid down our then-outstanding capital lease obligations by \$0.7 million. During the nine months ended March 31, 2012 we received \$4.8 million in net proceeds from the exercise of stock options and the purchase of stock under our employee stock purchase plan. In the prior-year period, we received \$9.9 million in proceeds from the exercise of stock options and the purchase of stock under our employee stock purchase plan. In addition, during the nine months ended March 31, 2012, we paid \$3.7 million to repurchase OSI Systems, Inc. company shares under the OSI stock repurchase program.

**Borrowings**

Outstanding lines of credit and current and long-term debt totaled \$2.8 million at March 31, 2012, a decrease of \$0.2 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 authorized a stock repurchase program in March 1999 for up to 2,000,000 shares and in September 2004 increased the number of shares available for repurchase by 1,000,000 shares totaling up to 3,000,000 shares of our common stock. This program does not have an expiration date.

The following table presents the shares acquired during the period:

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of program	Maximum number of shares that may yet be purchased
January 1, 2012 to January 31, 2012				
February 1, 2012 to February 29, 2012	25,400	\$ 53.21	25,400	
March 1, 2012 to March 31, 2012	25,400	\$ 53.21	25,400	627,409

**Dividend Policy**

We have never paid cash dividends on our common stock 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. See Note 7 to the condensed consolidated financial statements for further discussion regarding significant changes in those obligations during the first nine months of fiscal 2012.

#### **Off Balance Sheet Arrangements**

As of March 31, 2012, 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 nine months ended March 31, 2012, 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.

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**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 and U.S. dollars), 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 \$0.1 million and a loss of \$0.3 million during the three months ended March 31, 2011 and 2012, respectively. For the nine months ended March 31, 2011, we incurred a loss of \$1.5 million and for the nine months ended March 31, 2012, we had net zero impact from foreign exchange gains and losses, 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 third 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 third 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 \$6.2 million outstanding as of March 31, 2012.

**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 and nine months ended March 31, 2012.

**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 March 31, 2012, 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 March 31, 2012.

*(b) Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting during the third 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** See Share Repurchase Program discussion under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

**Item 3. Defaults Upon Senior Securities** None

**Item 4. Mine Safety Disclosures** None

**Item 5. Other Information**

**Item 6. Exhibits**

- 10.1 Employment Agreement dated as of January 1, 2012 between Deepak Chopra and OSI Systems, Inc. (1)
- 10.2 Employment Agreement dated as of January 1, 2012 between Alan Edrick and OSI Systems, Inc. (1)
- 10.3 Employment Agreement dated as of January 1, 2012 between Ajay Mehra and OSI Systems, Inc. (1)



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10.4	Employment Agreement dated as of January 1, 2012 between Victor Sze and OSI Systems, Inc. (1)
10.5	Employment Agreement dated as of January 1, 2012 between Manoocher Mansouri and OSI Systems, Inc. (1)
10.6	Third Amendment to Credit Agreement (2)
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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(1) Previously filed with our Current Report on Form 8-K filed April 6, 2012.

(2) Previously filed with our Current Report on Form 8-K filed April 11, 2012.

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 25th day of April 2012.

**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