

OSI SYSTEMS INC  
Form 10-Q  
January 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 December 31, 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 Number)

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

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

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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  No

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

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

Large accelerated filer

Accelerated filer

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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 January 23, 2012, there were 19,773,542 shares of the registrant's common stock outstanding.

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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>December 31, 2011</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 55,619	\$ 52,868
Accounts receivable, net	136,716	145,314
Other receivables	5,012	5,045
Inventories	169,634	205,789
Deferred income taxes	17,156	17,233
Prepaid expenses and other current assets	21,149	14,151
Total current assets	405,286	440,400
Property and equipment, net	55,017	58,647
Goodwill	70,292	77,133
Intangible assets, net	33,707	33,087
Other assets	20,614	15,970
Total assets	\$ 584,916	\$ 625,237
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 66,462	\$ 88,807
Accrued payroll and employee benefits	24,417	18,399
Advances from customers	25,191	27,218
Accrued warranties	14,530	15,382
Deferred revenue	15,956	14,231
Other accrued expenses and current liabilities	14,425	13,814
Total current liabilities	160,981	177,851
Long-term debt	2,756	2,554
Other long-term liabilities	36,379	44,467
Total liabilities	200,116	224,872
Commitment 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 19,728,433 shares at December 31, 2011	272,552	276,438

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Retained earnings	110,103	127,165
Accumulated other comprehensive income (loss)	2,145	(3,238)
Total stockholders' equity	384,800	400,365
Total liabilities and stockholders' equity	\$ 584,916	\$ 625,237

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)

	For the Three Months Ended		For the Six Months Ended	
	December 31,		December 31,	
	2010	2011	2010	2011
Revenues	\$ 169,287	\$ 187,993	\$ 297,740	\$ 349,310
Cost of goods sold	109,264	122,169	190,819	230,629
Gross profit	60,023	65,824	106,921	118,681
Operating expenses:				
Selling, general and administrative expenses	33,958	35,979	65,934	70,346
Research and development	11,842	11,546	21,073	22,426
Restructuring and other charges	903		1,159	
Total operating expenses	46,703	47,525	88,166	92,772
Income from operations	13,320	18,299	18,755	25,909
Interest expense and other income, net	(506)	(721)	(1,096)	(1,520)
Income before provision for income taxes	12,814	17,578	17,659	24,389
Provision for income taxes	3,596	5,277	5,049	7,327
Net income	\$ 9,218	\$ 12,301	\$ 12,610	\$ 17,062
Earnings per share:				
Basic	\$ 0.49	\$ 0.62	\$ 0.68	\$ 0.87
Diluted	\$ 0.47	\$ 0.61	\$ 0.65	\$ 0.85
Shares used in per share calculation:				
Basic	18,752	19,685	18,592	19,630
Diluted	19,475	20,237	19,289	20,161

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)

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2010	2011	2010	2011
Net income	\$ 9,218	\$ 12,301	\$ 12,610	\$ 17,062
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1,116)	(2,132)	3,795	(5,393)
Other	1,015	(261)	1,175	10
Other comprehensive income (loss)	(101)	(2,393)	4,970	(5,383)
Comprehensive income	\$ 9,117	\$ 9,908	\$ 17,580	\$ 11,679

See accompanying notes to condensed consolidated financial statements.



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(amounts in thousands)

(Unaudited)

	For the Six Months Ended December 31	
	2010	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 12,610	\$ 17,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,206	9,741
Stock based compensation expense	2,752	3,462
Provision for (recovery of) losses on accounts receivable	(425)	227
Equity in earnings of unconsolidated affiliates	(247)	(119)
Deferred income taxes	815	(168)
Other	126	28
Changes in operating assets and liabilities:		
Accounts receivable	6,632	(9,673)
Other receivables	(88)	(376)
Inventories	(26,703)	(38,112)
Prepaid expenses and other current assets	(809)	10,537
Accounts payable	23,102	22,415
Accrued payroll and related expenses	(7,162)	(5,745)
Advances from customers	(1,582)	4,175
Accrued warranties	1,005	1,050
Deferred revenue	(621)	(717)
Other accrued expenses and current liabilities	863	(1,303)
Net cash provided by operating activities	19,474	12,484
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(4,590)	(9,083)
Acquisition of businesses-net of cash acquired	(5,248)	(3,189)
Acquisition of intangible and other assets	(1,764)	(1,794)
Net cash used in investing activities	(11,602)	(14,066)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(32,490)	(108)
Payments of capital lease obligations	(169)	
Proceeds from exercise of stock options and employee stock purchase plan	7,532	2,194
Repurchase of common shares		(1,770)
Net cash provided by (used in) financing activities	(25,127)	316
EFFECT OF EXCHANGE RATE CHANGES ON CASH	589	(1,485)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(16,666)	(2,751)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	51,989	55,619
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 35,323	\$ 52,868
Supplemental disclosure of cash flow information:		
Interest paid	\$ 796	\$ 1,559
Income taxes paid	\$ 3,707	\$ 1,125

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, primarily under the Rapiscan trade name, and provides turnkey security screening solutions under the S2 Global trade name. 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*

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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 six months ended December 31, 2011, are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

### *Per Share Computations*

The Company computes basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. The Company computes diluted earnings per share by dividing net income available to common stockholders by the sum of the weighted average number of common and dilutive potential common shares outstanding. Potential common shares consist of the shares issuable upon the exercise of stock options or warrants under the treasury stock method. Stock options to purchase a total of 0.2 million and 0.1 million shares, respectively, of common stock for the six months ended December 31, 2011 and 2010 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 three months ended December 31, 2011 and 2010.

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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 December 31,				Six Months Ended December 31,			
	2010		2011		2010		2011	
Net income available to common stockholders	\$	9,218	\$	12,301	\$	12,610	\$	17,062
Weighted average shares outstanding - basic		18,752		19,685		18,592		19,630
Dilutive effect of stock options and warrants		723		552		697		531
Weighted average of shares outstanding - diluted		19,475		20,237		19,289		20,161
Basic net income per share	\$	0.49	\$	0.62	\$	0.68	\$	0.87
Diluted net income per share	\$	0.47	\$	0.61	\$	0.65	\$	0.85

### *Fair Value of Financial Instruments*

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

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

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

	June 30, 2011		December 31, 2011	
Level 1	\$	8,115	\$	8,233
Level 2		(187)		(417)
Total	\$	7,928	\$	7,816

### *Derivative Instruments and Hedging Activity*

The Company's use of derivatives consists primarily of foreign exchange contracts. As of December 31, 2011, 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 Not Yet Adopted*

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*

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*Accounting Standards Update No. 2011-05*, which defer 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 for at the same time as the amendments in Update 2011-05. The Company early adopted ASU 2011-05 and will await the outcome from the FASB's further evaluation of the reclassification presentation treatment.

**2. Balance Sheet Details**

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

	June 30, 2011	December 31, 2011
<b>Accounts receivable</b>		
Trade receivables	\$ 142,509	\$ 151,338
Less: allowance for doubtful accounts	(5,793)	(6,024)
Accounts receivable, net	\$ 136,716	\$ 145,314

	June 30, 2011	December 31, 2011
<b>Inventories, net</b>		
Raw materials	\$ 92,373	\$ 106,080
Work-in-process	37,202	40,478
Finished goods	40,059	59,231
Total	\$ 169,634	\$ 205,789

	June 30, 2011	December 31, 2011
<b>Property and equipment</b>		
Land	\$ 5,296	\$ 5,163
Buildings	9,638	9,609
Leasehold improvements	12,989	14,243
Equipment and tooling	72,104	77,251
Furniture and fixtures	4,431	4,444
Computer equipment	14,034	14,364
Software	14,618	14,998
Total	133,110	140,072
Less: accumulated depreciation and amortization	(78,093)	(81,425)
Property and equipment, net	\$ 55,017	\$ 58,647

**3. Goodwill and Intangible Assets**

The goodwill acquired during the period within the Security division related to an acquisition of a business that was considered immaterial to the Company. The changes in the carrying value of goodwill for the six month period ended December 31, 2011, are as follows (in thousands):

	<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	(428)	(128)	(14)	(570)	
Balance as of December 31, 2011	\$ 29,114	\$ 35,828	\$ 12,191	\$ 77,133	



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Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	Gross Carrying Value	June 30, 2011		December 31, 2011		
			Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Software development costs	5 years	\$ 13,090	\$ 3,807	\$ 9,283	\$ 13,743	\$ 3,630	\$ 10,113
Patents	10 years	2,975	449	2,526	3,404	467	2,937
Core technology	10 years	2,151	1,376	775	2,076	1,431	645
Developed technology							