

OSI SYSTEMS INC
Form 10-Q
January 26, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from to

Commission File Number 0-23125

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

California
(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)

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 o No x

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

Large accelerated filer o

Accelerated filer x

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

Smaller reporting company o

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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 25, 2011, there were 18,932,010 shares of the registrant's common stock outstanding.

Table of Contents

OSI SYSTEMS, INC.

INDEX

		PAGE
<u>PART I FINANCIAL INFORMATION</u>		3
<u>Item 1</u>	<u>Condensed Consolidated Financial Statements</u>	3
	<u>Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2010</u>	3
	<u>Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2009 and 2010</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2009 and 2010</u>	5
	<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	19
<u>Item 4</u>	<u>Controls and Procedures</u>	20
<u>PART II OTHER INFORMATION</u>		21
<u>Item 1</u>	<u>Legal Proceedings</u>	21
<u>Item 1A</u>	<u>Risk Factors</u>	21
<u>Item 6</u>	<u>Exhibits</u>	21
<u>Signatures</u>		22

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)**

	June 30, 2010	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 51,989	\$ 35,323
Accounts receivable	132,728	128,376
Other receivables	2,859	3,126
Inventories	125,930	155,115
Deferred income taxes	17,262	16,620
Prepaid expenses and other current assets	18,433	18,658
Total current assets	349,201	357,218
Property and equipment, net	51,515	51,170
Goodwill	63,941	69,778
Intangible assets, net	31,975	33,110
Other assets	16,482	19,018
Total assets	\$ 513,114	\$ 530,294
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Current portion of long-term debt	\$ 12,743	\$ 754
Accounts payable	49,673	74,144
Accrued payroll and employee benefits	23,953	17,060
Advances from customers	25,325	24,319
Accrued warranties	10,930	12,069
Deferred revenue	7,698	7,526
Other accrued expenses and current liabilities	14,272	14,234
Total current liabilities	144,594	150,106
Long-term debt	23,366	2,775
Other long-term liabilities	31,444	35,387
Total liabilities	199,404	188,268
Commitment and contingencies (Note 7)		
Shareholders' Equity:		
Preferred stock, no par value authorized, 10,000,000 shares; no shares issued or outstanding		
Common stock, no par value authorized, 100,000,000 shares; issued and outstanding, 18,326,133 at June 30, 2010 and 18,853,140 shares at December 31, 2010	244,026	254,764

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Retained earnings	76,681	89,289
Accumulated other comprehensive loss	(6,997)	(2,027)
Total shareholders' equity	313,710	342,026
Total liabilities and shareholders' equity	\$ 513,114	\$ 530,294

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,	
	2009	2010	2009	2010
Revenues	\$ 150,621	\$ 169,287	\$ 284,382	\$ 297,740
Cost of goods sold	94,256	109,264	183,550	190,819
Gross profit	56,365	60,023	100,832	106,921
Operating expenses:				
Selling, general and administrative expenses	34,610	33,958	66,890	65,934
Research and development	10,353	11,842	18,342	21,073
Restructuring and other charges	607	903	607	1,159
Total operating expenses	45,570	46,703	85,839	88,166
Income from operations	10,795	13,320	14,993	18,755
Interest and other expense, net	(784)	(506)	(1,389)	(1,096)
Income before provision for income taxes	10,011	12,814	13,604	17,659
Provision for income taxes	3,059	3,596	4,142	5,049
Net income	\$ 6,952	\$ 9,218	\$ 9,462	\$ 12,610
Earnings per share:				
Basic	\$ 0.39	\$ 0.49	\$ 0.54	\$ 0.68
Diluted	\$ 0.39	\$ 0.47	\$ 0.53	\$ 0.65
Shares used in per share calculation:				
Basic	17,643	18,752	17,573	18,592
Diluted	18,014	19,475	17,906	19,289

See accompanying notes to condensed consolidated financial statements.

Table of Contents**OSI SYSTEMS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

(Unaudited)

	For the Six Months Ended December 31	
	2009	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 9,462	\$ 12,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,490	9,206
Stock based compensation expense	2,398	2,752
Recovery of losses on accounts receivable	(521)	(425)
Equity in earnings of unconsolidated affiliates	(323)	(247)
Deferred income taxes	(1,290)	815
Other	80	126
Changes in operating assets and liabilities:		
Accounts receivable	(5,522)	6,632
Other receivables	1,986	(88)
Inventories	19,887	(26,703)
Prepaid expenses and other current assets	(987)	(809)
Accounts payable	(13,429)	23,102
Accrued payroll and related expenses	(2,146)	(7,162)
Advances from customers	9,763	(1,582)
Accrued warranties	121	1,005
Deferred revenue	(1,203)	(621)
Other accrued expenses and current liabilities	(3,378)	863
Net cash provided by operating activities	23,388	19,474
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(6,926)	(4,590)
Acquisition of businesses-net of cash acquired	(3,241)	(5,248)
Acquisition of intangible and other assets	(1,106)	(1,764)
Net cash used in investing activities	(11,273)	(11,602)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments of bank lines of credit	(4,000)	
Payments on long-term debt	(9,450)	(32,490)
Payments of capital lease obligations	(334)	(169)
Proceeds from exercise of stock options and employee stock purchase plan	3,423	7,532
Net cash used in financing activities	(10,361)	(25,127)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	642	589
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,396	(16,666)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	25,172	51,989
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 27,568	\$ 35,323
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,309	\$ 796
Income taxes paid	\$ 4,549	\$ 3,707

See accompanying notes to condensed consolidated financial statements.

Table of Contents

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Description of Business

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

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

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

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

Through its Optoelectronics and Manufacturing division, the Company designs, manufactures and markets optoelectronic devices and provides electronics manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, telecommunications, office automation, computer peripherals and industrial automation. This division provides products and services to original equipment manufacturers 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, 2010, filed with the Securities and Exchange Commission on August 27, 2010. The results of operations for the three months and six months ended December 31, 2010, 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 shareholders 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 shareholders 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 and warrants to purchase a total of 0.1 million shares of common stock for the six months ended December 31, 2010 were not included in diluted earnings per share calculations because to do so would have been antidilutive, while no options or warrants were excluded from the calculation for the three months ended December 31, 2010. Stock options and warrants

Table of Contents

to purchase a total of 1.1 million and 1.2 million shares of common stock for the three months and six months ended December 31, 2009, were not included in diluted earnings per share calculations because to do so would have been antidilutive. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended December 31,		Six Months Ended December 31,	
	2009	2010	2009	2010
Net income available to common shareholders	\$ 6,952	\$ 9,218	\$ 9,462	\$ 12,610
Weighted average shares outstanding basic	17,643	18,752	17,573	18,592
Dilutive effect of stock options and warrants	371	723	333	697
Weighted average of shares outstanding diluted	18,014	19,475	17,906	19,289
Basic earnings per share	\$ 0.39	\$ 0.49	\$ 0.54	\$ 0.68
Diluted earnings per share				