

OSI SYSTEMS INC
Form 10-Q
November 08, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

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 as the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **YES** ☒ **NO** ☐

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

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 November 6, 2006, there were 16,709,700 shares of the registrant's common stock outstanding.

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OSI SYSTEMS, INC.

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	June 30, 2006	September 30, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 13,799	\$ 10,688
Marketable securities, available-for-sale	100	113
Accounts receivable net of allowance for doubtful accounts of \$2,996 and \$2,876 at June 30, 2006 and September 30, 2006, respectively	119,419	124,527
Other receivables	9,701	8,369
Inventories	120,604	131,507
Income taxes receivable	2,119	2,747
Deferred income taxes	13,752	17,495
Prepaid expenses and other current assets	3,805	5,744
Total current assets	283,299	301,190
Property and equipment, net	42,521	48,576
Goodwill	29,066	40,481
Intangible assets, net	44,046	51,336
Investments	1,789	1,829
Deferred income taxes	331	334
Other assets	2,021	2,274
Total	\$ 403,073	\$ 446,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank lines of credit	\$ 10,857	\$ 24,052
Current portion of long-term debt	1,251	5,384
Accounts payable	54,282	57,229
Accrued payroll and related expenses	14,244	14,528
Deferred income taxes	2,186	2,479
Advances from customers	2,961	5,343
Accrued warranties	7,224	7,318
Deferred revenue	9,314	8,411
Other accrued expenses and current liabilities	18,824	21,068
Total current liabilities	121,143	145,812
Long-term debt	5,483	27,308
Deferred rent	5,379	5,344
Accrued pension	2,280	2,292
Deferred income taxes	7,504	7,673
Other long-term liabilities	2,606	3,474
Total liabilities	144,395	191,903

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Minority interest	9,731	9,093
Commitment and Contingencies (Note 8)		
Shareholders' Equity:		
Preferred stock, no par value authorized, 10,000,000 shares; no shares issued or outstanding at June 30, 2006 and September 30, 2006		
Common stock, no par value authorized, 100,000,000 shares; issued and outstanding, 16,598,361 and 16,708,450 shares at June 30, 2006 and September 30, 2006, respectively	193,698	195,936
Retained earnings	50,208	44,167
Accumulated other comprehensive income	5,041	4,921
Total shareholders' equity	248,947	245,024
Total	\$ 403,073	\$ 446,020

See accompanying notes to consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(Unaudited)

	For the Three Months Ended September 30,	
	2005	2006
Revenues	\$ 101,870	\$ 115,529
Cost of goods sold	64,917	77,032
Gross profit	36,953	38,497
Operating expenses:		
Selling, general and administrative	33,415	36,370
Research and development	8,731	10,258
Other operating expenses	1,321	780
Total operating expenses	43,467	47,408
Loss from operations	(6,514)	(8,911)
Other income (expense):		
Interest expense	(551)	(1,014)
Interest income	20	141
Other expense		(74)
Loss before provision for income taxes and minority interest	(7,045)	(9,858)
Benefit for income taxes	(2,856)	(3,179)
Loss before minority interest	(4,189)	(6,679)
Minority interest		638
Net loss	\$ (4,189)	\$ (6,041)
Loss per share:		
Basic	\$ (0.26)	\$ (0.36)
Diluted	\$ (0.26)	\$ (0.36)
Shares used in per share calculation:		
Basic	16,241,146	16,667,671
Diluted	16,241,146	16,667,671

See accompanying notes to consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(Unaudited)

	Three Months Ended September 30,	
	2005	2006
Cash flows from operating activities:		
Net loss	\$ (4,189)	\$ (6,041)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,274	4,926
Stock based compensation expense	1,241	1,375
Provision for losses on accounts receivable	841	114
Minority interest in net loss of subsidiary		(638)
Equity in undistributed earnings of unconsolidated affiliates	(24)	(40)
Deferred income taxes	(2,848)	(3,400)
Restructuring charges	742	(169)
In-process research and development		561
Loss (gain) on sale of property and equipment	8	(25)
Changes in operating assets and liabilities net of business acquisitions:		
Accounts receivable	(4,222)	(333)
Other receivables	(401)	3,487
Inventories	(3,013)	(7,931)
Income taxes receivable	(553)	(1,320)
Prepaid expenses	(465)	(1,223)
Accounts payable	3,118	(514)
Accrued payroll and related expenses	307	328
Advances from customers	288	2,378
Accrued warranties	(341)	(835)
Deferred revenue	(78)	(2,248)
Other accrued expenses and current liabilities	(691)	(2,159)
Net cash used in operating activities	(7,006)	(13,707)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	30	62
Acquisition of property and equipment	(3,566)	(2,463)
Cash paid for business acquisitions, net of cash acquired	(311)	(24,209)
Intangible and other assets	(740)	(900)
Net cash used in investing activities	(4,587)	(27,510)
Cash flows from financing activities:		
Net proceeds from bank lines of credit	10,637	13,281
Proceeds from long-term debt	1,416	25,458
Payments on capital lease obligations		(273)
Payments on long-term debt	(66)	(1,057)
Proceeds from exercise of stock options, warrants and employee stock purchase plan	647	864
Net cash provided by financing activities	12,634	38,273
Effect of exchange rate changes on cash	438	(167)
Net increase (decrease) in cash and cash equivalents	1,479	(3,111)

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Cash and cash equivalents-beginning of year	14,623	13,799
Cash and cash equivalents-end of year	\$ 16,102	\$ 10,688
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 464	\$ 896
Income taxes	\$ 632	\$ 2,090
Supplemental disclosure of non-cash investing activities		
Capital expenditures in accounts payable	\$	\$ 2,920
See accompanying notes to consolidated financial statements.		

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OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Description of Business

OSI Systems, Inc. (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: (a) Security, providing security and inspection systems; (b) Healthcare, providing medical monitoring and anesthesia systems; and (c) Optoelectronics and Manufacturing, providing specialized electronic components for affiliated end-products divisions, as well as for external clients in the defense and aerospace markets, among others.

The Company's Security division designs, manufactures and markets security and inspection systems worldwide to end users under the Rapiscan Systems trade name. Rapiscan Systems products are used for the non-intrusive inspection of baggage, cargo, vehicles and other objects for weapons, explosives, drugs and other contraband and to screen people. These systems 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. Rapiscan Systems products fall into four categories: baggage and parcel inspection, cargo and vehicle inspection, hold (checked) baggage screening and people screening.

The Company's Healthcare division designs, manufactures and markets medical monitoring and anesthesia systems worldwide to end users, primarily under the Spacelabs Healthcare trade name. The products and services of this division include network and connectivity solutions, ambulatory blood pressure monitors and related services as well as cardiac monitoring and diagnostic services.

The Company's Optoelectronics and Manufacturing division designs, manufactures and markets 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 (CT), toll and traffic management systems, fiber optics, telecommunications, weapons simulation systems, gaming, office automation, computer peripherals and industrial automation. The Company sells optoelectronic devices under the OSI Optoelectronics trade name and performs value-added manufacturing services under the OSI Electronics trade name. 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 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 consolidated financial statements have been prepared by the Company, without audit, pursuant to Financial Accounting Principles Board ("FASB") Opinion No. 28, "Interim Financial Reporting" 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 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 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, 2006, filed with the Securities and Exchange Commission on September 22, 2006. The results of operations for the three months ended September 30, 2006 are not necessarily indicative of the operating results to be expected for the full fiscal year or any future periods.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

Spacelabs Healthcare Public Offering

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In October 2005, Spacelabs Healthcare, Inc., a recently formed subsidiary comprising the business operations of the Company's entire Healthcare division, completed an initial public offering of approximately 20% of its total issued and outstanding common stock. The newly issued Spacelabs Healthcare shares trade under the ticker symbol "SLAB" on the

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Alternative Investment Market (AIM), a stock market administered by the London Stock Exchange. The shares began trading on the AIM on October 31, 2005. As a result of the initial public offering, the Company recorded minority interest in Spacelabs Healthcare of \$7.6 million, representing approximately 20% of Spacelabs Healthcare's issued and outstanding shares. The Company treated the initial public offering as a capital transaction in accordance with Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 51 Accounting for Sales of Stock of a Subsidiary (SAB 51). The offering resulted in \$26.3 million in proceeds, net of expenses.

Derivative Instruments

The Company may, from time to time, purchase foreign exchange contracts in order to attempt to reduce foreign exchange transaction gains and losses, or enter into interest rate swaps. As of June 30, 2006, the Company had a \$25.4 million foreign currency forward contract outstanding to buy British pounds in anticipation of the acquisition by Spacelabs Healthcare of the Del Mar Reynolds cardiac division of Ferraris Group PLC. Transaction gains during the year ended June 30, 2006 included a \$0.5 million gain related to this contract. In July 2006, the Company completed the Del Mar Reynolds acquisition and the foreign currency forward contract settled, resulting in a fiscal year 2007 loss of \$24,000 related to this contract.

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. The Company excludes from the calculation of diluted earnings per share stock options and warrants with exercise prices greater than the average market price of the Company's common stock because their effect would otherwise be anti-dilutive. The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three months Ended September 30,	
	2005	2006
Net loss	\$ (4,189)	\$ (6,041)
Effect of dilutive interest in subsidiary stock	(48)	
Loss available to common shareholders	\$ (4,237)	\$ (6,041)
Weighted average shares outstanding - basic	16,241,146	16,667,671
Dilutive effect of stock options and warrants		
Weighted average of shares outstanding - diluted	16,241,146	16,667,671
Basic loss per share	\$ (0.26)	\$ (0.36)
Diluted loss per share	\$ (0.26)	\$ (0.36)

Comprehensive Income

Comprehensive income (loss) is computed as follows (in thousands):

	Three months ended	
	September 30,	
	2005	2006
Net loss	\$ (4,189)	\$ (6,041)
Foreign currency translation adjustments	165	(122)
Unrealized gain on marketable securities available for sale	26	13

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Minimum pension liability adjustment		(11)
Comprehensive loss	\$ (3,998)	\$ (6,161)

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Recent Accounting Pronouncements

In June 2005, the FASB issued an exposure draft of a proposed standard entitled *Business Combinations* a replacement of FASB Statement No. 141. The proposed standard, if adopted, would provide new guidance for evaluating and recording business combinations and would be effective on a prospective basis for business combinations with acquisition dates on or after January 1, 2007. Upon issuance of a final standard, which is expected to occur in calendar 2006, the Company will evaluate its impact on the Company and its effect on the process for recording business combinations.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*. This interpretation clarifies how companies should account for uncertainty in income taxes that they recognize in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company has not yet determined the impact that this interpretation will have on its financial statements.

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company has not yet determined the impact that SFAS No. 157 will have on its consolidated financial statements.

In September 2006, FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS No. 158). SFAS No. 158 requires that an employer recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability, as applicable, in its statement of financial position and that it recognize, in comprehensive income of a business entity, any changes in such status in the year in which the changes occur. This SFAS No. 158 also requires that an employer measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company has not yet determined the impact that this interpretation will have on its consolidated financial statements.

2. Business Acquisitions

Spacelabs Medical

In March 2004, the Company completed the acquisition from Instrumentarium Corporation, now a subsidiary of General Electric Company (GE), of certain capital stock and assets constituting substantially all of the business operations of Spacelabs Medical. The acquisition price was approximately \$47.9 million in cash (net of cash acquired), including acquisition costs. Spacelabs Medical is a leading global manufacturer and distributor of patient monitoring systems for critical care and anesthesia, wired and wireless networks, clinical information connectivity solutions, ambulatory blood pressure monitors and medical data services. In June 2004, the Company notified GE of a working capital and retention bonus adjustment resulting in what the Company believes to be a downward adjustment of the purchase price in the amount of approximately \$26 million. In September 2004, GE responded that it believes the amount of the downward adjustment to be \$7.8 million.

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Del Mar Reynolds

On July 31, 2006, the Company's majority-owned subsidiary, Spacelabs Healthcare, completed the acquisition of the Del Mar Reynolds Cardiac division of Ferraris Group PLC. Pursuant to the terms of the merger agreement, the Company made an initial cash payment of £13.9 million (\$25.9 million), subject to a working capital adjustment and to an adjustment of plus or minus £1 million (\$1.9 million at September 30, 2006) based upon revenue and earnings results for Del Mar Reynolds for the 13-month period ending September 30, 2006. Furthermore, contingent consideration of up to £5 million (\$9.4 million at September 30, 2006) will be payable if Del Mar Reynolds achieves certain revenue targets during fiscal year 2007. The additional earn-out, if any, may be satisfied, at Spacelabs Healthcare's discretion, either in cash or by the issuance of Spacelabs Healthcare common stock. This acquisition broadens the portfolio of products that the Company's Healthcare Division is able to offer the hospital market with the addition of cardiac monitoring systems. Del Mar Reynolds also offers a core laboratory business that provides clinical trial services to pharmaceutical companies and to clinical research organizations.

In September 2006, based upon the actual amount of working capital at July 31, 2006, Del Mar Reynolds refunded the Company \$1.7 million. In addition, based upon the financial results of Del Mar Reynolds for the 13-month period ended September 30, 2006, Del Mar Reynolds is required to refund an additional \$1.9 million, which amount is included in other receivables.

The results of operations for Del Mar Reynolds have been included in the accompanying condensed consolidated financial statements as of the date of acquisition. The total cost of the acquisition, excluding the potential earn-out, was as follows:

(in thousands)	
Cash paid for common stock	\$ 25,879
Less refund pursuant to working capital adjustment	(1,694)
Less receivable pursuant to 13-month revenue and earnings adjustment	(1,872)
Direct costs	587
Total purchase price	\$ 22,900

The Company has based the preliminary allocation of the purchase price on an estimate of fair values of the assets acquired and the liabilities assumed. The final determination of the allocation of the purchase price is pending the final assessment of a third party's valuation of the assets acquired and liabilities assumed. The finalization of the purchase price allocation may result in asset fair values and liabilities assumed that are different from the preliminary estimates of these amounts. As of September 30, 2006, the preliminary purchase price allocation is as follows:

(in thousands)	
Net tangible assets acquired	\$ 3,414
In-process research and development costs acquired	561
Identifiable intangible assets acquired	7,567
Goodwill	11,358
	\$ 22,900

A history of operating margins and profitability, a strong scientific employee base and operations in an attractive market niche were among the factors that contributed to a purchase price resulting in the recognition of goodwill. In-process research and development costs acquired were expensed during the three months ended September 30, 2006 and are included in other operating expenses. Projects that qualify as in-process research and development represent those that have not yet reached technological feasibility and which have no alternative future use.

As part of the integration of the business, the Company established the following reserve for the termination and relocation of certain employees to other sites, and legal and accounting fees:

(in thousands)

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Employee severance	\$ 722
Relocation costs	205
Legal and accounting fees	216
	\$ 1,143

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At September 30, 2006, this reserve is included in accrued expenses and other current liabilities in the Consolidated Balance Sheets. For the three months ended September 30, 2006, the Company had not made any payments related to severance charges that had been accrued for acquisition and business integration costs.

3. Balance Sheet Details

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

	June 30, 2006	September 30, 2006
Accounts receivable		
Trade receivables, net	\$ 115,133	\$ 122,322
Receivables related to long term contracts - unbilled costs and accrued profit on progress completed	4,286	2,205
Total	\$ 119,419	\$ 124,527
Inventories		
Raw materials	\$ 63,785	\$ 61,543
Work-in-process	29,961	33,885
Finished goods	26,858	36,079
Total	\$ 120,604	\$ 131,507
Property and equipment, net		
Land	\$ 5,899	\$ 5,953
Buildings	7,370	7,483
Leasehold improvements	7,066	7,610
Equipment	30,902	36,329
Tooling	4,288	4,292
Furniture and fixtures	4,140	4,678
Computer equipment	15,619	17,218
ERP software	2,455	2,577
Demo equipment	4,888	4,888
Vehicles	359	549
Total	82,986	91,577
Less: accumulated depreciation and amortization	(40,465)	(43,001)
Property and equipment, net	\$ 42,521	\$ 48,576

The Company expects to bill and collect the receivables for unbilled costs and accrued profits at September 30, 2006 during the next twelve months.

4. Goodwill and Intangible Assets

The changes in the carrying value of goodwill for the three month period ended September 30, 2006 are as follows (in thousands):

Security Group	Healthcare Group	Optoelectronics	Consolidated
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				and Manufacturing Group	
Balance as of June 30, 2006	\$ 16,732	\$ 5,990	\$ 6,344	\$ 29,066	
Goodwill acquired during the period		11,392		11,392	
Foreign currency translation adjustment	(28)	51		23	
Balance as of September 30, 2006	\$ 16,704	\$ 17,433	\$ 6,344	\$ 40,481	

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Intangible assets, which have indefinite lives and therefore are not subject to amortization, consisted of trademarks with a gross carrying value of \$7.1 million at June 30, 2006 and September 30, 2006.

Intangible assets subject to amortization consisted of the following (in thousands):

	Weighted Average Lives	Gross Carrying Value	June 30, 2006		Gross Carrying Value	September 30, 2006	
			Accumulated Amortization	Intangibles Net		Accumulated Amortization	Intangibles Net
Software development costs	3 years	3,271	1,480	1,791	3,971	1,746	2,225
Patents	10 years	420	215	205	420	225	195
Core technology	25 years	9,289	1,159	8,130	9,320	1,283	8,037
Developed technology	15 years	27,573	4,589	22,984	31,989	5,116	26,873
Customer relationships/backlog	7 years	5,462	1,646	3,816	8,797	1,925	6,872
		\$ 46,015	\$ 9,089	\$ 36,926	\$ 54,497	\$ 10,295	\$ 44,202

Amortization expense related to intangibles assets was \$0.9 million and \$1.2 million for the three months ended September 30, 2005, and 2006 respectively. At September 30, 2006, the estimated future amortization expense was as follows (in thousands):

2007 (remaining 9 months)	\$ 4,049
2008	4,829
2009	4,403
2010	3,980
2011	3,310
2012	1,857
2013 and thereafter	21,774
Total	\$ 44,202

5. Borrowings

In May 2005, the Company entered into a second amended and restated credit agreement with Bank of the West. The agreement provided for a \$50 million senior revolving line-of-credit, including a letter-of-credit, foreign exchange facility and an acquisition credit facility, each of which were secured by substantially all of the assets of the Company's U.S. subsidiaries and its stock ownership in two significant foreign subsidiaries. In October 2005, the Company entered into a first amendment to the second amended and restated credit agreement. As amended, the agreement included an asset-based credit facility of up to \$50 million with revised financial covenants. As of June 30, 2006, \$10.2 million was outstanding under the revolving line-of-credit and \$11.2 million was issued and outstanding under the letter-of-credit facility.

In July 2006, in order to provide the Company's Spacelabs Healthcare subsidiary with a separate line of credit, the Company bifurcated its arrangement with Bank of the West. In doing so, the Company entered into a third amended and restated credit agreement with Bank of the West. As amended, the agreement provides the Company a \$35 million senior revolving line-of-credit, including a letter-of-credit and foreign exchange facility, each of which are secured by substantially all of the Company's U.S. assets, including its ownership interest in Spacelabs Healthcare. Interest on the revolving loans is based, at the Company's option, on either

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the bank's prime rate plus up to 0.5%, or on the British Bankers Association Interest Settlement Rate for deposits in U.S. dollars, plus up to 2.5%. The agreement contains certain financial covenants such as maintaining a specified tangible net worth; ratio of total liabilities to effective tangible net worth; ratio of earnings before interest and taxes to interest paid in cash; pre-tax loss limitations; and capital expenditure limitations, among others. As of September 30, 2006, the Company was not in compliance with one of the financial covenants; however, the bank waived this covenant. The agreement expires in July 2009. As of September 30, 2006, \$14.0 million was outstanding under the revolving line-of-credit and \$10.1 million was issued and outstanding under the letter-of-credit facility.

In connection with bifurcating the Company's line-of-credit, Spacelabs Healthcare also entered into a credit agreement with Bank of the West. The agreement provides for a \$10 million senior revolving line-of-credit, including a letter-of-credit and foreign exchange facility, and a \$27.4 million loan to fund the purchase of the Del Mar Reynolds cardiology division of Ferraris Group PLC. The agreement is secured by substantially all of the assets of the U.S. subsidiaries of the Company's Healthcare division. Interest on the revolving loans is based, at Spacelabs Healthcare's option, on either the bank's prime rate, plus up to 0.5%, or on the British Bankers Association Interest Settlement Rate for deposits in U.S. dollars plus up to 2.5%. The agreement contains certain financial covenants such as maintaining a specified tangible net worth; ratio of current assets to current liabilities; ratio of earnings before interest, taxes, depreciation and amortization less non-financed capital expenditures and dividends paid or declared to interest paid plus the current portion of long-term debt and capitalized lease obligations; and ratio of indebtedness to earnings before interest taxes depreciation and amortization, among others. The agreement expires in July 2009. As of September 30, 2006, \$5.0 million was outstanding under the revolving line-of-credit and \$24.5 million, which was used primarily to fund the purchase of the Del Mar Reynolds Cardiology division of Ferraris Group PLC, was outstanding under the loan.

At September 30, 2006, several of the Company's foreign subsidiaries maintained bank lines-of-credit, denominated in local currencies, to meet short-term working capital requirements. These credit facilities bear interest at fixed rates at the bank's prime rate, the United Kingdom LIBOR rate, the Norwegian NIBOR rate and the Japan TIBOR rate (a weighted average rate of 7.1% at September 30, 2006). The U.S. dollar equivalent of these facilities totaled \$11.3 million at September 30, 2006, of which \$5.1 million was outstanding at September 30, 2006. The Company has guaranteed these credit facilities up to approximately \$4.9 million.

Long-term debt consisted of the following:

	June 30, 2006	September 30, 2006
(in thousands)		
Five-year term loan payable in quarterly installments of \$908,000 until paid in full on July 18, 2011. Interest is variable based on either one to three-month LIBOR plus 2.0% (one month LIBOR 7.38% at September, 30, 2006) or prime rate	\$	\$ 24,500
Twenty-year term loan payable in quarterly installments of £34,500 (approximately \$65,000 at September 30, 2006) until paid in full on December 1, 2024. Interest is due quarterly at a rate of three-month LIBOR plus 1.2% (6.27% at September, 30, 2006)	4,721	4,713
Four-year term loan payable in monthly installments of \$34,710 until paid in full on October 10, 2009. Interest is due monthly at a rate of 7.85%	1,218	1,137
Capital lease obligations	248	1,683
Other	547	659
	6,734	32,692
Less current portion of long-term debt	1,251	5,384
Long-term portion of debt	\$ 5,483	\$ 27,308

Table of Contents**6. Stock-based Compensation**

As of September 30, 2006, the Company maintained the following three significant stock option plans: (a) 1997 Stock Option Plan of OSI Systems, Inc. (the OSI Plan), (b) 2005 Equity Participation Plan of Spacelabs Healthcare (the Spacelabs Healthcare Plan) and (c) 2006 Equity Participation Plan of Rapiscan Systems Holdings, Inc. (the Rapiscan Systems Plan).

The Company recorded stock-based-compensation expense in accordance with SFAS No. 123(R) Share-Based Payment (SFAS 123(R)) for the three months ended September 30, 2005 and 2006 of approximately \$1.0 million and \$1.0 million, respectively, net of tax. The income tax benefit related to such compensation was approximately \$0.2 million in 2005 and \$0.4 million in 2006. The Company recorded stock-based compensation expense in the consolidated statement of operations as follows:

(in thousands)	Three Months Ended September 30,	
	2005	2006
Cost of goods sold	\$ 55	\$ 93
Selling, general and administrative	1,074	1,195
Research and development	112	87
	\$ 1,241	\$ 1,375

As of September 30, 2006, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted amounted to: \$3.9 million under the OSI Plan, \$1.4 million under the Spacelabs Healthcare Plan and \$1.7 million under the Rapiscan Systems Plan. The Company expects to recognize these costs over a weighted-average period of 1.9 years with respect to the OSI Plan, 1.7 years with respect to the Spacelabs Healthcare Plan and 2.5 years with respect to the Rapiscan Systems Plan.

Employee Stock Purchase Plan

The Company maintains and administers an employee stock purchase plan under which it has reserved for issuance 500,000 shares of its common stock. Eligible employees may purchase a limited number of shares of common stock at a discount of up to 15% of the market value of such stock at pre-determined, plan-defined dates. The compensation expense associated with the this plan, included in the consolidated statement of operations for the three month period ended September 30, 2006, was not material.

Stock Option Plans

OSI Plan The Company established the OSI Plan in May 1997 and authorized the grant of up to 850,000 shares of common stock in the form of incentive and nonqualified options. In November 2004, the Company increased the number of shares authorized under the OSI Plan to 3,350,000. Under the OSI Plan, the Company may grant to its directors and employees, including those of its subsidiaries, incentive and nonqualified options to purchase shares of the Company's common stock. Under the plan, the exercise price of nonqualified options may not be less than 85% of the fair market value of the Company's common stock on the date of grant. The exercise price of incentive stock options may not be less than the fair market value of the Company's common stock at the date of grant. The exercise price of incentive stock options granted to individuals who own more than 10% of the Company's voting stock may not be less than 110% of the fair market value of the Company's common stock on the date of grant.

The Company estimates the fair value of each option award under the OSI Plan as of the date of grant using the Black-Scholes options pricing model utilizing assumptions detailed in the table below. The Company bases expected volatilities on a blend of historical volatilities of the Company's common stock and implied volatilities of its publicly traded options, as more fully explained below. The expected life utilized represents the weighted-average period of time that options granted are expected to be outstanding, giving consideration to vesting periods and historical exercise patterns. The risk-free rate utilized is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding to the expected life of the option.

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The Company determined the fair value of options issued under the OSI Plan as of the date of the grant, using the Black-Scholes option pricing model, with the following weighted average assumptions:

	Three Months Ended September 30,	
	2005	2006
Expected dividend	0%	0%
Risk-free interest rate	4.0%	4.9%
Expected volatility	49.1%	42.5%
Expected life (in years)	3.7	3.9

The following table summarizes stock option activity under the OSI Plan during the three months ended September 30, 2006:

	Weighted-Average		Remaining Contractual	Aggregate
	Number of	Weighted-Average	Term	Intrinsic Value
	Options	Exercise Price	(in years)	(\$000)
Outstanding at June 30, 2006	1,778,678	\$ 17.93		
Granted	139,500	18.23		
Exercised	(72,320)	4.67		
Expired or cancelled	(4,825)	9.79		
Outstanding at September 30, 2006	1,841,033	\$ 18.49	2.6	\$ 2,507
Exercisable at September 30, 2006	921,409	\$ 18.00	1.4	\$ 1,669

The per-share weighted-average grant-date fair value of stock options granted under the OSI Plan was \$7.14 during the three months ended September 30, 2006, and \$6.74 for the three months ended September 30, 2005. The total intrinsic value of options exercised during the three months ended September 30, 2006 was \$1.1 million and during the three months ended September 30, 2005 was \$0.2 million.

Additional information relating to the OSI Plan at September 30, 2006 is as follows:

Options exercisable	921,409
Options available for grant	379,896
Total shares reserved for stock option plan	3,350,000

Spacelabs Healthcare Plan The Company established the Spacelabs Healthcare Plan in October 2005 under which the Company authorized the grant of options to purchase up to 10,000,000 shares of Spacelabs Healthcare common stock. Under the Spacelabs Healthcare Plan, Spacelabs Healthcare may grant to employees, including those of its subsidiaries, consultants and to the non-employee directors of Spacelabs Healthcare, nonqualified options to purchase shares of the Spacelabs Healthcare common stock.

The Company estimates the fair value of each option award under the Spacelabs Healthcare Plan as of the date of grant using a Black-Scholes option pricing model utilizing assumptions detailed in the table below. The Company bases expected volatilities on the historical volatilities of the publicly traded common stock of a select peer group of companies that are similar to Spacelabs Healthcare. The Company has determined the expected term assumption under the Simplified Method as defined in SAB 107, as it lacks historical data and is unable to make reasonable estimates regarding future exercise patterns. The risk-free rate utilized is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option.

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The Company has determined the fair value of options issued under the Spacelabs Healthcare Plan as of the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended
	September 30, 2006
Expected dividend	0%
Risk-free interest rate	5.0%
Expected volatility	38.3%
Expected life (in years)	3.6

The following table summarizes stock option activity under the Spacelabs Healthcare Plan during the three months ended September 30, 2006:

	Number of Options	Weighted- Average Exercise Price	Remaining Contractual Term (in years)	Aggregate Intrinsic Value (\$000)
Outstanding June 30, 2006	5,474,119	\$ 1.37		
Granted	100,000	2.50		
Exercised	(21,683)	1.05		
Canceled	(181,030)	1.25		

	Three months ended		Six months ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Foreign currency translation gains/(losses)	\$ 41,613	\$ 3,356	\$ 167,574	\$ 62,444
Unrealized gain/(loss) on investment securities	0	486	0	510
Comprehensive income/(loss)	\$ 41,613	\$ 3,842	\$ 167,574	\$ 62,954

We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries.

(5) Property, Plant and Equipment

Property, plant and equipment were comprised of the following as of December 31, 2010 and June 30, 2010 (in thousands):

	December 31, 2010	June 30, 2010
Machinery and equipment	\$135,764	\$106,279
Computer equipment	117,274	99,069
Furniture and fixtures	41,630	33,873
Vehicles	2,876	2,702

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Clinical, demonstration and rental equipment	79,864	66,394
Leasehold improvements	23,110	18,735
Land	65,407	57,785
Buildings	272,392	240,475
	738,317	625,312
Accumulated depreciation and amortization	(297,268)	(238,164)
Property, plant and equipment, net	\$441,049	\$387,148

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(6) Goodwill**

Changes in the carrying amount of goodwill for the six months ended December 31, 2010, were as follows (in thousands):

Balance at July 1, 2010	\$ 198,625
Goodwill on business acquisition	4,958
Foreign currency translation adjustments	15,637

Balance at December 31, 2010	\$ 219,220
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On August 19, 2010 we acquired certain business assets of our headgear supplier for a total purchase price of \$21.7 million. This acquisition will allow us to improve our current supply capabilities, reduce our cost base and enhance our ability to develop headgear technology. The acquisition has been accounted for as a business combination using purchase accounting and is included in our consolidated financial statements from August 19, 2010. The acquisition is not considered a material business combination and we have not incurred any material acquisition related costs.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(7) Other Intangible Assets**

Other intangible assets are comprised of the following as of December 31, 2010, and June 30, 2010 (in thousands):

	December 31, 2010	June 30, 2010
Developed/core product technology	\$55,096	\$35,167
Accumulated amortization	(27,870)	(22,413)
Developed/core product technology, net	27,226	12,754
Trade names	2,403	2,159
Accumulated amortization	(1,823)	(1,547)
Trade names, net	580	612
Non compete agreements	1,835	0
Accumulated amortization	(113)	0
Non compete agreements, net	1,722	0
Customer relationships	15,444	13,854
Accumulated amortization	(10,059)	(8,316)
Customer relationships, net	5,385	5,538
Patents	48,797	37,146
Accumulated amortization	(33,083)	(25,125)
Patents, net	15,714	12,021
Other intangibles, net	\$50,627	\$30,925

Intangible assets consist of patents, customer relationships, trade names, developed/core product technology, and non compete agreements. Intangibles assets are amortized over the estimated useful life of the assets, generally between three and nine years. There are no expected residual values related to these assets.

(8) Long-Term Debt

Long-term debt at December 31, 2010, and June 30, 2010 consists of the following (in thousands):

	December 31, 2010	June 30, 2010
Current portion of long-term debt	\$64,358	\$121,689
Non-current portion of long-term debt	0	0
Total long term debt	\$64,358	\$121,689

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(8) Long-Term Debt, Continued

Revolving Facility

On February 27, 2009, ResMed Inc., and our wholly-owned subsidiaries, ResMed Corp., ResMed EAP Holdings Inc. and ResMed Motor Technologies Inc., entered into a Third Amendment to the March 1, 2006 Second Amended and Restated Revolving Loan Agreement with Union Bank of California, N.A. (the Loan Agreement).

The Loan Agreement was modified in order that the revolving commitment remains at \$65 million otherwise it would have been reduced to \$55 million as of March 1, 2009. The entire outstanding principal amount must be repaid in full before March 1, 2011. The outstanding principal amount due under the revolving facility bears interest at a rate equal to LIBOR plus 0.75% to 1.00% (depending on the applicable leverage ratio). At December 31, 2010, there was \$64.1 million outstanding under this revolving facility.

The obligations of ResMed Corp., ResMed Motor Technologies Inc. and ResMed EAP Holdings Inc. under the Loan Agreement are secured by substantially all of the personal property of each of ResMed Corp., ResMed Motor Technologies Inc. and ResMed EAP Holdings Inc., and are guaranteed by ResMed Inc. under an Amended and Restated Continuing Guaranty and Pledge Agreement, which guaranty is secured by a pledge of the equity interests in ResMed Corp., ResMed Motor Technologies Inc. and ResMed EAP Holdings Inc. held by ResMed Inc. The Loan Agreement also contains customary covenants, including certain financial covenants and an obligation that ResMed Inc. maintain certain financial ratios, including a maximum ratio of total debt to EBITDA (as defined in the Loan Agreement), a fixed charge coverage ratio, a minimum tangible net worth, and a minimum ResMed Corp., ResMed Motor Technologies Inc. and ResMed EAP Holdings Inc. EBITDA.

In the third amendment, the Loan Agreement was also amended to modify certain financial covenants. The minimum fixed charge coverage ratio was revised to exclude capital expenditures related to construction of our new headquarters building. The requirement that ResMed Corp. and ResMed Motor Technologies Inc. maintain minimum earnings before interest, taxes, depreciation and amortization, or EBITDA, was increased to \$15 million. Finally, the requirement that we meet certain minimum liquidity levels was eliminated.

The entire principal amount of the revolving facility and any accrued but unpaid interest may be declared immediately due and payable in the event of the occurrence of an event of default as defined in the Loan Agreement. Events of default include, among other items, failure to make payments when due, the occurrence of a material default in the

performance of any covenants in the Loan Agreement or related amendments or a 35% or more change in control of ResMed Inc., ResMed Corp., ResMed Motor Technologies Inc. or ResMed EAP Holdings Inc. At December 31, 2010, we were in compliance with our debt covenants.

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(8) Long-Term Debt, Continued

Syndicated Facility

On June 8, 2006, our wholly owned Australian subsidiary, ResMed Limited, entered into a Syndicated Facility Agreement with HSBC Bank Australia Limited as original financier, facility agent and security trustee, that provides for a loan in tranches (the "Syndicated Facility Agreement").

Tranche A was a Euro (EUR) 50 million five-year term loan facility that refinanced all amounts outstanding under a previous facility. Tranche A bore interest at a rate equal to LIBOR for deposits denominated in EUR plus a margin of 0.80% or 0.90%, depending on the ratio of the total debt to EBITDA of ResMed Inc. and its subsidiaries (the "ResMed Group") for the most recently completed fiscal year for the applicable interest period. The total outstanding principal amount of Tranche A had to be repaid in full on June 8, 2011. At December 31, 2010, the Tranche A facility loan had been fully repaid.

Tranche B was a USD 15 million term loan facility that may only be used for the purpose of financing capital expenditures and other asset acquisitions by the ResMed Group. Tranche B bore interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars, USD or British Pounds Sterling plus a margin of 0.80% or 0.90%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire principal amount had to be repaid in full on June 8, 2011. At December 31, 2010, the Tranche B facility loan had been fully repaid.

Tranche C was a USD 60 million term loan facility that could only be used for the purpose of the payment by ResMed Limited of a dividend to ResMed Holdings Limited, which would ultimately be paid to ResMed Inc. Tranche C bore interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars or USD plus a margin of 0.70% or 0.80%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire outstanding principal amount was repaid in full during the year ended June 30, 2009. At December 31, 2010, the Tranche C loan facility was no longer available.

Simultaneous with the Syndicated Facility Agreement, ResMed Limited entered into a working capital agreement with HSBC Bank Australia Limited for revolving, letter of credit and overdraft facilities up to a total commitment of 6.5 million Australian dollars, and ResMed (UK) Limited entered into a working capital agreement with HSBC Bank plc for a revolving cash advance facility for a total commitment of up to 3 million British Pounds Sterling. At

December 31, 2010, there were no amounts outstanding under either of these facilities.

On September 30, 2008, our wholly-owned Australian subsidiary, ResMed Limited, agreed to amend and restate the Syndicated Facility Agreement entered into on June 8, 2006. The amended and restated agreement (First Amended and Restated Syndicated Facility Agreement) with the Hong Kong and Shanghai Banking Corporation, Sydney Branch as financier and HSBC Bank Australia Limited as facility agent and security trustee, provided for an additional Tranche D term loan facility in the amount of USD 50 million.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(8) Long-Term Debt, Continued**

On September 30, 2009, ResMed Limited, agreed to amend and restate for a second time the Syndicated Facility Agreement. The second amended and restated agreement (Second Amended and Restated Syndicated Facility Agreement) provides for the extension of our Tranche D term loan facility in the amount of USD 50 million for an additional 12 month period and to increase the interest rate applicable to the Tranche D portion of the loan facility. The financier continued to have the right to assign part or all of its rights and/or obligations under the Second Amended and Restated Syndicated Facility Agreement to other financial institutions. The extended Tranche D loan facility bore interest at a rate equal to LIBOR for deposits denominated in USD, plus a margin of 2.25% or 2.50%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire principal amount of the additional loan facility was repaid by September 30, 2010. At December 31, 2010, there were no amounts outstanding under the Tranche D loan facility.

The Syndicated Facility Agreement is secured by a pledge of one hundred percent of the shares of ResMed Inc. 's subsidiary, ResMed Paris SAS (formerly Saime SAS), pursuant to a pledge agreement. The Syndicated Facility Agreement also contains customary covenants, including certain financial covenants and an obligation that ResMed Limited maintains certain financial ratios, including a minimum debt service cover ratio, a maximum ratio of total debt to EBITDA and a minimum tangible net worth. The entire principal amount of the loan and any accrued, but unpaid, interest may be declared immediately due and payable in the event of the occurrence of an event of default as defined in the Syndicated Facility Agreement. Events of default include, among other items, failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, the occurrence of an event or change which could have a material adverse effect on ResMed Limited and its subsidiaries, and if ResMed Inc. ceases to control ResMed Limited, ResMed Corp., ResMed SAS, ResMed GmbH & Co. KG, ResMed (UK) Limited, Take Air Medical Handels-GmbH or ResMed Paris SAS.

The obligations of ResMed Limited under the loan facility were subject to two guarantee and indemnity agreements, one on behalf of ResMed Inc. and its U.S. subsidiary, ResMed Corp., and another on behalf of ResMed 's international subsidiaries, ResMed SAS (other than Tranche C), ResMed GmbH & Co. KG, ResMed (UK) Limited and Take Air Medical Handels-GmbH.

Prepayment Facility

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During the quarter ended September 30, 2009, ResMed EPN Limited, our wholly-owned UK subsidiary, obtained access to a Prepayment Facility with HSBC Invoice Finance (UK) Limited that provides for a cash advance facility up to a total commitment of 5 million British Pounds Sterling. These advances are limited to 75% of secured outstanding sales invoices. At December 31, 2010, there were no amounts outstanding under this facility.

Details of contractual debt maturities at December 31, 2010, are as follows (in thousands):

	Total	Payments Due by Period					Thereafter
		2011	2012	2013	2014	2015	
Long-term debt	\$64,358	\$64,358	\$0	\$0	\$0	\$0	\$0

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(9) Stockholders' Equity

Common Stock. On May 27, 2009, our Board of Directors approved a new share repurchase program, authorizing us to acquire up to an aggregate of 10.0 million shares of ResMed Inc. common stock. The program allows us to repurchase shares of our common stock from time to time for cash in the open market, or in negotiated or block transactions, as market and business conditions warrant. This program canceled and replaced our previous share repurchase program previously authorized on June 6, 2002 for 8.0 million shares and pursuant to which we had repurchased 6,622,907 shares. The new program authorizes us to purchase in addition to the shares we repurchased under our previous program. There is no expiration date for this program. All share repurchases after May 29, 2009 have been executed in accordance with this program. In conjunction with the stock split declared on August 5, 2010, the Board approved a doubling of the remaining number of shares, as at the date of the stock split that could be purchased under the above program, from 7.2 million shares to 14.3 million shares. Accordingly, the effective total number of shares that can be purchased under the May 27, 2009 program is 17.2 million shares.

During the three month and six months ended December 31, 2010, we repurchased 0.6 million and 0.9 million shares, respectively, at a cost of \$18.7 million and \$36.6 million, respectively. At December 31, 2010, we have repurchased a total of 10.2 million shares at a cost of \$381.1 million, of which 6.6 million shares were repurchased pursuant to the repurchase program approved on June 6, 2002 and 3.5 million were repurchased pursuant to the new repurchase program approved on May 27, 2009. Shares that are repurchased are classified as treasury stock pending future use and reduce the number of shares outstanding used in calculating earnings per share. At December 31, 2010, 13.6 million additional shares can be repurchased under the approved share repurchase program.

Stock Split. On August 5, 2010, our Board of Directors declared a two-for-one split of our common stock to be payable in the form of a 100% stock dividend. On August 30, 2010, Shareholders received one additional share of common stock for every share held on August 17, 2010. All share and per share information has been adjusted to reflect the stock split.

Preferred Stock. In April 1997, the Board of Directors authorized 2,000,000 shares of \$0.01 par value preferred stock. No such shares were issued or outstanding at December 31, 2010 and June 30, 2010.

Stock Options and Restricted Stock Units (RSU). We have granted stock options and restricted stock units to personnel, including officers and directors, in accordance with the 2006 Plan, the 2006 Amended Plan and the 2009 Plan, which was approved at the annual meeting of the stockholders of ResMed Inc. on November 18, 2009. These options and restricted stock units have expiration dates of seven years from the date of grant and vest over one or four years. We have granted the options with an exercise price equal to the market value as determined at the date of grant.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(9) Stockholders' Equity, Continued**

The maximum number of shares of our common stock authorized for issuance under the 2009 Plan is 22,921,650. The number of securities remaining available for future issuance under the 2009 Plan at December 31, 2010 is 4,151,826. The number of shares of our common stock available for issuance under the 2009 Plan will be reduced by (i) two (2.0) shares, a decrease from two and four tenth (2.4) shares, for each one share of common stock delivered in settlement of any full-value award, which is any award other than a stock option, stock appreciation right or other award for which the holder pays the intrinsic value and (ii) one share for each share of common stock delivered in settlement of all other awards. The maximum number of shares, which may be subject to awards granted under the 2009 Plan to any individual during any calendar year, may not exceed 3,000,000 shares of our common stock (except in a participant's initial year of hiring up to 4,500,000 shares of our common stock may be granted).

At December 31, 2010, there was \$84.4 million in unrecognized compensation costs related to unvested stock-based compensation arrangements. This is expected to be recognized over a weighted average period of 3.1 years. The aggregate intrinsic value of the stock-based compensation arrangements outstanding and exercisable at December 31, 2010, was \$291.3 million and \$155.6 million, respectively. The aggregate intrinsic value of the options exercised during the three and six months ended December 31, 2010 was \$28.5 million and \$40.1 million, respectively.

The following table summarizes option activity during the six months ended December 31, 2010:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Term in Years
Outstanding at beginning of period	16,835,936	\$18.49	4.44
Granted	1,015,300	33.65	
Exercised	(2,763,667)	18.22	
Forfeited	(48,248)	17.10	
Outstanding at end of period	15,039,321	\$19.41	4.25
Exercise price range of granted options	\$29.80 - \$33.70		
Options exercisable at end of period	9,356,429	\$18.01	

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The following table summarizes the activity of restricted stock units during the six months ended December 31, 2010:

	Restricted Stock Units	Weighted Average Price	Weighted Average Remaining Term to Vest in Years
Outstanding at beginning of period	1,072,740	\$25.90	1.97
Granted	976,858	33.62	
Vested	(241,830)	25.54	
Forfeited	(10,519)	25.54	
Outstanding at end of period	1,797,249	\$30.14	2.19

All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 5, 2010 and distributed on August 30, 2010.

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(9) Stockholders' Equity, Continued

Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved at the annual meeting of the stockholders of ResMed Inc. on November 18, 2009, as an amendment to the previously approved employee stock purchase plan. Under the ESPP, participants are offered the right to purchase shares of our common stock at a discount during successive offering periods. Each offering period under the ESPP will be for a period of time determined by the Board of Directors' Compensation Committee of no less than 3 months and no more than 27 months. The purchase price for our common stock under the ESPP will be the lower of 85% of the fair market value of our common stock on the date of grant or 85% of the fair market value of our common stock on the date of purchase. An individual participant cannot subscribe for more than \$25,000 in common stock during any calendar year. As part of the approval of the ESPP at the annual meeting of the stockholders of ResMed Inc. on November 18, 2009, the number of shares of our common stock available for grant under the ESPP increased by 600,000, from 500,000 to 1,100,000. In conjunction with the stock split, the Board approved a doubling of the number of shares remaining available for future issuance under the ESPP, as at the date of stock split, from 540,000 to 1,080,000. At December 31, 2010, the number of shares remaining available for future issuance under the ESPP is 959,000.

During the three and six months ended December 31, 2010, we recognized \$0.4 million and \$1.1 million, respectively, of stock-based compensation expense associated with the ESPP.

(10) Fair Value Measurements

In determining the fair value measurements of our financial assets and liabilities, we consider the principal and most advantageous market in which we transact and consider assumptions that market participants would use when pricing the financial asset or liability. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The hierarchies of inputs are as follows:

Level 1: Input prices quoted in an active market for identical financial assets or liabilities;

Level 2: Inputs other than prices quoted in Level 1, such as prices quoted for similar financial assets and liabilities in active markets, prices for identical assets and liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Input prices quoted that are significant to the fair value of the financial assets or liabilities which are not observable nor supported by an active market.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(10) Fair Value Measurements, Continued**

The following table summarizes our financial assets and liabilities, as at December 31, 2010, using the valuation input hierarchy (in thousands):

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$616,201	\$0	\$0	\$616,201
Cost-method investments	0	0	2,980	2,980
Foreign currency options	0	18,435	0	18,435
	\$616,201	\$18,435	\$2,980	\$637,616

We determine the fair value of our financial assets as follows:

Cash and cash equivalents The valuation used for our cash and other money market funds are derived from quoted market prices due to their short term nature and there is an active market for these financial instruments.

Cost-method investments These investments include our holdings in privately held service companies and research companies that are not exchange traded and therefore not supported with observable market prices. However, these investments are valued by reference to their net asset values which can be market supported and observable inputs including future cash flows.

Foreign currency options These financial instruments are valued using third party valuation models based on market observable inputs, including interest rate curves, on market spot currency prices, volatilities and credit risk.

The following table shows a reconciliation of the changes in the six months ended December 31, 2010 for fair value measurements using significant unobservable inputs (thousands):

	Cost-Method Investments
Balance at July 1, 2010	\$1,748
Purchases	1,166
Foreign currency translation	66

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Balance at December 31, 2010

\$2,980

We did not have any significant non-financial assets or liabilities measured at fair value on December 31, 2010 or June 30, 2010.

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RESMED INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

(11) Legal Actions and Contingencies

In the normal course of business, we are subject to routine litigation incidental to our business. While the results of this litigation cannot be predicted with certainty, we believe that their final outcome will not have a material adverse effect on our condensed consolidated financial statements taken as a whole.

During September and October 2004, we began receiving tax assessment notices for the audit of one of our German subsidiaries by the German tax authorities for the years 1996 through 1998. Certain aspects of these assessment notices are being contested and appealed to the German tax authority office. As the outcome of the appeal cannot be predicted with certainty, any tax issues resolved in a manner not consistent with our expectations may require us to adjust our provision for income tax in the period of resolution. However, the estimate of the range of loss or possible loss in relation to the tax assessment notices for the years 1996 to 1998, which are being contested and appealed, is immaterial to our condensed consolidated financial statements when taken as a whole.

In February 2007, the University of Sydney commenced legal action in the Federal Court of Australia against us, claiming breach of a license agreement and infringement of certain intellectual property. The claim has been amended to include an allegation of breach of confidentiality. The university is seeking various types of relief, including an injunction against manufacturing, supplying, offering for sale, selling or exporting certain mask devices, payment of license fees, damages or an account of profits, interest, costs and declaration of a constructive trust over and assignment of certain intellectual property. In October 2007, we filed a defense denying the university's claim, as well as a cross-claim against the university seeking an order for rectification of the contract and alleging the university violated the Australian Trade Practices Act. The matter is ongoing. Given the inherent uncertainty and unpredictability of litigation and due to the status of this legal action, no range of loss or possible loss can be reasonably estimated. However, we do not expect the outcome of this matter to have a material adverse effect on our condensed consolidated financial statements when taken as a whole.

In January 2010, Vaughn Medical Equipment Repair Service, L.L.C., filed a complaint in the U.S. District Court in Louisiana, asserting claims against us and other defendants, for anti-competitive conduct, conspiracy, defamation and tortious interference. In September 2010, the US District Court granted our motion to dismiss the case. Vaughn Medical appealed that dismissal. On September 3, 2010, ResMed filed an Original Petition in Intervention in the Judicial District of Fort Bend County, Texas, in which it asserted claims against Vaughn Medical and others, for tortious interference, conspiracy, and asserting a groundless and bad faith antitrust claim. Also in September 2010, Vaughn Medical filed its petition against ResMed and others, asserting claims against ResMed for violations of the Texas Free Enterprise and Antitrust Act, tortious interference, defamation, civil conspiracy, and unjust enrichment. ResMed, Vaughn Medical, and others ultimately entered into a settlement, with an effective date of December 2, 2010. In accordance with that settlement, on December 10, 2010, the Fort Bend County Texas District

Court entered an Agreed Permanent Injunction and Order, which included enjoining Vaughn Medical and certain other parties from distributing ResMed products without ResMed's authorization, representing themselves as authorized ResMed distributors without ResMed's authorization, or disparaging ResMed's reputation. Also in accordance with the settlement, on December 13, 2010, the US Court of Appeals for the Fifth Circuit dismissed Vaughn Medical's appeal, with prejudice, at Vaughn Medical's request.

(12) Derivative Instruments and Hedging Activities

We transact business in various foreign currencies, including a number of major European currencies as well as the Australian dollar. We have significant foreign currency exposure through both our Australian manufacturing activities and international sales operations. We have established a foreign currency hedging program using purchased currency options and forward contracts to hedge foreign-currency-denominated financial assets, liabilities and manufacturing expenditures. The terms of such foreign currency hedging contracts generally do not exceed three years. The goal of this hedging program is to economically manage the financial impact of foreign currency exposures denominated in Euros, Australian dollars and British Pounds. Under this program, increases or decreases in our foreign-currency-denominated financial assets, liabilities, and firm commitments are partially offset by gains and losses on the hedging instruments.

We do not designate these foreign currency contracts as hedges. All movements in the fair value of the foreign currency instruments are recorded within other income, net in our condensed consolidated statements of income. We do not enter into financial instruments for trading or speculative purposes.

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RESMED INC. AND SUBSIDIARIES**Notes to the Condensed Consolidated Financial Statements****(Unaudited)****(12) Derivative Instruments and Hedging Activities, Continued**

We held foreign currency instruments with notional amounts totaling \$174.9 million and \$211.5 million at December 31, 2010 and June 30, 2010, respectively, to hedge foreign currency fluctuations. These contracts mature at various dates prior to June 30, 2013.

The fair value and effect of derivative instruments on our condensed consolidated financial statements were as follows:

Derivatives Not Designated as Hedging Instruments	Asset Derivatives	December 31, 2010	Gain recognized in Income on Derivative	
	Balance Sheet Location	Fair Value	Location of gain recognized in Income on Derivative	Six Months Ended December 31, 2010
Foreign Exchange Contracts	Other Assets	\$18,435	Other Income	\$14,026

We are exposed to credit-related losses in the event of non-performance by counter parties to financial instruments. The credit exposure of foreign currency derivatives at December 31, 2010 and June 30, 2010 was \$18.4 million and \$10.8 million, respectively, which represents the positive fair value of our foreign currency derivatives. These values are included in the current and non-current balances of other assets on the condensed consolidated balance sheets. We minimize counterparty credit risk by entering into derivative transactions with major financial institutions and, as such, we do not expect material losses as a result of default by our counterparties.

(13) Subsequent Events

We have evaluated any events or transactions occurring after December 31, 2010 and noted that there have been no such events or transactions which would impact our consolidated financial statements for the three and six months ended December 31, 2010.

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RESMED INC. AND SUBSIDIARIES

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Special Note Regarding Forward-Looking Statements

This report contains or may contain certain forward-looking statements and information that are based on the beliefs of our management as well as estimates and assumptions made by, and information currently available to, our management. All statements other than statements regarding historical facts are forward-looking statements. The words believe, expect, anticipate, will continue, will, estimate, plan, future and other similar expressions in this report are forward-looking statements of such expressions, generally identify forward-looking statements, including, in particular, statements regarding the development and approval of new products and product applications, market expansion, pending litigation and the development of new markets for our products, such as cardiovascular and stroke markets. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on these forward-looking statements. Such forward-looking statements reflect the views of our management at the time such statements are made and are subject to a number of risks, uncertainties, estimates and assumptions, including, without limitation, and in addition to those identified in the text surrounding such statements, those identified in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010 and elsewhere in this report.

In addition, important factors to consider in evaluating such forward-looking statements include changes or developments in healthcare reform, social, economic, market, legal or regulatory circumstances, changes in our business or growth strategy or an inability to execute our strategy due to changes in our industry or the economy generally, the emergence of new or growing competitors, the actions or omissions of third parties, including suppliers, customers, competitors and governmental authorities and various other factors. Should any one or more of these risks or uncertainties materialize, or underlying estimates or assumptions prove incorrect, actual results may vary significantly from those expressed in such forward-looking statements, and there can be no assurance that the forward-looking statements contained in this report will in fact occur.

Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described in our annual report on Form 10-K, in addition to the other cautionary statements and risks described elsewhere in this report and in our other filings with the SEC, including our subsequent reports on Forms 10-Q and 8-K. These risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on us, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock will likely decline and you may lose all or part of your investment.

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RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following is an overview of our results of operations for the three and six months ended December 31, 2010. Management's discussion and analysis (MD&A) of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of ResMed Inc. MD&A is provided as a supplement to, and should be read in conjunction with selected financial data and condensed consolidated financial statements and notes, included herein.

We are a leading developer, manufacturer and distributor of medical equipment for treating, diagnosing, and managing sleep-disordered breathing (SDB) and other respiratory disorders. During the three and six months ended December 31, 2010, we continued our efforts to build awareness of the consequences of untreated SDB, and to grow our business in this market. In our efforts, we have attempted to raise awareness through market and clinical initiatives highlighting the relationship between sleep-disordered breathing/obstructive sleep apnea and co-morbidities, such as cardiac disease, diabetes, hypertension and obesity, as well as the dangers of sleep apnea in regard to occupational health and safety, especially in the transportation industry.

We are committed to ongoing investment in research and development and product enhancements. During the three and six months ended December 31, 2010, we invested \$22.0 million and \$41.7 million respectively, on research and development activities. Since the development of Continuous Positive Airway Pressure (CPAP), we have developed a number of innovative products for SDB and other respiratory disorders including airflow generators, diagnostic products, mask systems, headgear and other accessories. Our new product release schedule remains active across both our mask and flow generator categories. We have recently introduced the S9 Escape product, the Swift FX for Her mask, the Mirage FX mask and the Quattro FX mask. We are taking steps to increase awareness of the health dangers of sleep-disordered breathing by sponsoring educational programs targeted at the primary care physician community. We believe these efforts should further increase awareness of both doctors and patients about the relationship between sleep-disordered breathing, obstructive sleep apnea and co-morbidities such as cardiac disease, diabetes, hypertension and obesity. We believe these efforts should also support our efforts to inform the community of the dangers of sleep apnea in occupational health and safety, especially in the transport industry.

During the three months ended December 31, 2010, our net revenue increased by 11% when compared to the three months ended December 31, 2009. Gross margin was 60.8% for the three months ended December 31, 2010 compared to 59.7% for the three months ended December 31, 2009. Diluted earnings per share for the three months ended December 31, 2010 increased to \$0.37 per share, up from \$0.30 per share in the three months ended December 31, 2009.

At December 31, 2010, our cash and cash equivalents totaled \$616.2 million, our total assets were \$1.9 billion and our stockholders' equity was \$1.6 billion.

In order to provide a framework for assessing how our underlying businesses performed excluding the effect of foreign currency fluctuations, we provide certain financial information on a constant currency basis, which is in addition to the actual financial information presented. In order to calculate our constant currency information, we translate the current period financial information using the foreign currency exchange rates that were in effect during the previous comparable period. However, constant currency measures should not be considered in isolation or as an alternative to U.S. dollars measures that reflect current period exchange rates, or to other financial measures calculated and presented in accordance with U.S. GAAP.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Net Revenue**

Net revenue increased for the three months ended December 31, 2010 to \$306.0 million compared to \$275.1 million for the three months ended December 31, 2009, an increase of \$30.9 million or 11%. The increase in net revenue is primarily attributable to an increase in unit sales of our flow generators, masks and accessories. Movements in international currencies against the U.S. dollar negatively impacted revenues by approximately \$6.5 million during the three months ended December 31, 2010. Excluding the impact of unfavorable foreign currency movements, net revenue for the three months ended December 31, 2010 increased by 14% compared to the three months ended December 31, 2009.

Net revenue in North and Latin America increased for the three months ended December 31, 2010 to \$163.2 million from \$148.0 million for the three months ended December 31, 2009, an increase of 10%. We believe this growth has been generated by increased public and physician awareness of sleep-disordered breathing and growth generated from our recent product releases including the S9 flow generator and the Swift FX and the Swift FX for Her masks. Net international revenue, which includes all markets outside North and Latin America, for the three months ended December 31, 2010, increased to \$142.8 million from \$127.1 million for the three months ended December 31, 2009, an increase of 12%. Movements in international currencies against the U.S. dollar negatively impacted international revenues by approximately \$6.5 million during the three months ended December 31, 2010. Excluding the impact of movements in international currencies, international sales grew by 17% compared to the three months ended December 31, 2009. We believe this international sales growth predominantly reflects growth in the overall sleep-disordered breathing market and growth generated from our recent product releases, including the S9 flow generator and the Quattro FX mask.

Net revenue from the sales of flow generators, including humidifiers, for the three months ended December 31, 2010 totaled \$175.4 million, an increase of 8% compared to the three months ended December 31, 2009 of \$162.1 million, including increases of 2% in North and Latin America and 14% internationally. Net revenue from the sales of masks and other accessories for the three months ended December 31, 2010 totaled \$130.6 million, an increase of 16% compared to the three months ended December 31, 2009 of \$113.0 million, including increases of 19% in North and Latin America and 10% internationally. Excluding the impact of unfavorable currency movements, international revenue increased by 19% and 14% for flow generators and masks and other accessories, respectively, for the three months ended December 31, 2010 compared to the three months ended December 31, 2009. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market and contributions from new products.

The following table summarizes the percentage movements in our net revenue for the three months ended December 31, 2010 compared to the three months ended December 31, 2009:

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	North and Latin America	International	Total	International (Constant Currency) *	Total (Constant Currency)
Flow generators	2%	14%	8%	19%	11%
Masks and other accessories	19%	10%	16%	14%	17%
Total	10%	12%	11%	17%	14%

* Constant currency numbers exclude the impact of movements in international currencies.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Net Revenue, continued**

Net revenue for the six months ended December 31, 2010, increased to \$588.0 million or 13% as compared to \$522.1 million for the six months ended December 31, 2009. For the six months ended December 31, 2010, revenue from sales of flow generators increased by 12% compared to the six months ended December 31, 2009, comprising an 8% increase in North and Latin America and a 15% increase internationally. Revenue from sales of mask systems, motors and other accessories increased by 14%, comprising an 18% increase in North and Latin America and a 7% increase internationally, for the six months ended December 31, 2010 compared to the six months ended December 31, 2009. Movement in international currencies against the U.S. dollar negatively impacted net revenue by approximately \$14.3 million during the six months ended December 31, 2010. Excluding the impact of unfavorable currency movements, total revenue for the six months ended December 31, 2010 increased by 15% compared to the six months ended December 31, 2009. We believe these increases primarily reflect growth in the overall sleep-disordered breathing market, and strong sales from our new products.

The following table summarizes the percentage movements in our net revenue for the six months ended December 31, 2010 compared to the six months ended December 31, 2009:

	North and Latin America	International	Total	International (Constant Currency) *	Total (Constant Currency)*
Flow generators	8%	15%	12%	21%	15%
Masks, motors and other accessories	18%	7%	14%	13%	16%
Total	13%	12%	13%	18%	15%

* Constant currency numbers exclude the impact of movements in international currencies.

Gross Profit

Gross profit increased for the three months ended December 31, 2010 to \$186.0 million from \$164.2 million for the three months ended December 31, 2009, an increase of \$21.8 million or 13%. Gross profit as a percentage of net revenue for the three months ended December 31, 2010 increased to 60.8% from 59.7% for the three months ended December 31, 2009.

Gross profit increased for the six months ended December 31, 2010 to \$360.0 million from \$314.4 million for the six months ended December 31, 2009, an increase of \$45.6 million or 15%. Gross profit as a percentage of net revenue for the six months ended December 31, 2010 was 61.2% compared to 60.2% for the six months ended December 31, 2009.

The increase in gross margins for the three and six months ended December 31, 2010 is primarily due to new product introductions, cost savings attributable to manufacturing and supply chain initiatives and product mix, partly offset by the appreciation of the Australian dollar against the U.S. dollar as the majority of our manufacturing labor and overhead is denominated in Australian dollars.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased for the three months ended December 31, 2010 to \$91.6 million from \$84.1 million for the three months ended December 31, 2009, an increase of \$7.5 million or 9%. Selling, general and administrative expenses, as a percentage of net revenue, were 29.9% for the three months ended December 31, 2010 compared to 30.6% for the three months ended December 31, 2009.

Selling, general and administrative expenses increased for the six months ended December 31, 2010 to \$176.4 million from \$160.9 million for the six months ended December 31, 2009, an increase of \$15.5 million or 10%. Selling, general and administrative expenses, as a percentage of net revenue, were 30.0% for the six months ended December 31, 2010 compared to 30.8% for the six months ended December 31, 2009.

The increase in selling, general and administrative expenses was primarily due to an increase in the number of sales and administrative personnel to support our growth, stock-based compensation costs and other expenses related to the increase in our sales. As a percentage of net revenue, we expect our future selling, general and administrative expense to be between 30% and 31%.

Research and Development Expenses

Research and development expenses increased for the three months ended December 31, 2010 to \$22.0 million from \$19.1 million for the three months ended December 31, 2009, an increase of \$2.9 million or 15%. Research and development expenses, as a percentage of net revenue, were 7.2% for the three months ended December 31, 2010, compared to 6.9% for the three months ended December 31, 2009.

Research and development expenses increased for the six months ended December 31, 2010 to \$41.7 million from \$37.0 million for the six months ended December 31, 2009, an increase of \$4.7 million or 13%. Research and development expenses, as a percentage of net revenue, were 7.1%, for the six months ended December 31, 2010 compared to 7.1% for the six months ended December 31, 2009.

The increase in research and development expenses was primarily due to an increase in the number of research and development personnel and an increase in materials and tooling incurred to facilitate development of new products. The increase in research and development expenses was also due to the net appreciation of the Australian dollar against the U.S. dollar, which increased our expenses by approximately \$1.0 million and \$1.8 million for the three and six months ended December 31, 2010, respectively, as reported in U.S. dollars. As a percentage of net revenue, we expect our future research and development expense to continue to be between 7% and 8%.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Amortization of Acquired Intangible Assets**

Amortization of acquired intangible assets for the three and six months ended December 31, 2010 totaled \$2.6 million and \$4.6 million, respectively, as compared to \$2.1 million and \$4.0 million for the three and six months ended December 31, 2009, respectively. The increase in amortization expense is attributable to the recent acquisition of certain business assets of our headgear supplier.

Donations to Foundation

For the three and six months ended December 31, 2010, we donated a total of \$Nil and \$1.0 million, respectively, to the ResMed Foundation (the "Foundation"). The Foundation was established primarily to promote research into the deleterious medical consequences of untreated sleep-disordered breathing and to increase public and physician awareness of the importance of sleep and respiratory health throughout the world. For the three and six months ended December 31, 2009, we donated a total of \$1.0 million and \$2.0 million, respectively, to the ResMed Foundation.

Other Income, Net

Other income, net for the three and six months ended December 31, 2010 was \$9.0 million and \$19.2 million, respectively, compared to \$5.2 million and \$10.4 million, respectively, for the three and six months ended December 31, 2009. The increase in other income, net, during the three and six months ended December 31, 2010, was predominately due to gains on foreign currency and hedging transactions and an increase in interest income, net, due to additional cash balances, an increase in interest rates on Australian dollar denominated deposits and a reduction in our long-term debt.

Income Taxes

Our effective income tax rate of approximately 25.9% for the three months ended December 31, 2010 was lower than our effective income tax rate of approximately 27.1% for the three months ended December 31, 2009. Our effective income tax rate 25.9% for the six months ended December 31, 2010 was lower than our effective tax rate of 27.2% for the six months ended December 31, 2009. The lower tax rate was primarily due to a change in the geographic mix of taxable income.

We continue to benefit from the Australian and Singapore corporate tax rates and certain Australian research and development tax benefits because we generate the majority of our taxable income in Australia.

Net Income

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As a result of the factors above, our net income for the three months ended December 31, 2010 was \$58.5 million or \$0.37 per diluted share compared to net income of \$46.0 million or \$0.30 per diluted share for the three months ended December 31, 2009, an increase of 27% and 23%, respectively, over the three months ended December 31, 2009.

As a result of the factors above, our net income for the six months ended December 31, 2010 was \$115.2 million or \$0.73 per diluted share compared to net income of \$88.1 million or \$0.57 per diluted share for the six months ended December 31, 2009, an increase of 31% and 28%, respectively, over the six months ended December 31, 2009.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Liquidity and Capital Resources**

As of December 31, 2010 and June 30, 2010, we had cash and cash equivalents of \$616.2 million and \$488.8 million, respectively. Working capital was \$898.7 million and \$672.7 million at December 31, 2010 and June 30, 2010, respectively.

Inventories at December 31, 2010 were \$214.9 million, an increase of \$32.0 million or 18% over the December 31, 2009 balance of \$182.9 million. The percentage increase in inventories mainly reflects an increase in materials for new products and the impact of movements in foreign currency exchange rates, particularly the appreciation of the Australian dollar relative to the U.S. dollar.

Accounts receivable at December 31, 2010 were \$235.1 million, an increase of \$26.2 million or 13% over the December 31, 2009 accounts receivable balance of \$208.9 million. Accounts receivable days outstanding of 67 days at December 31, 2010 decreased by 3 days compared to the 70 days at December 31, 2009. Our allowance for doubtful accounts as a percentage of total accounts receivable at December 31, 2010 and June 30, 2010 was 3.5% and 3.3%, respectively. To date we have not experienced any significant adverse decline in the credit quality of our customers and it remains broadly consistent with our past experience.

At December 31, 2010, no capital lease obligations exist. Details of contractual obligations at December 31, 2010 are as follows:

In \$000 s	Total	Payments Due by Period					
		Dec 31, 2011	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Thereafter
Long-Term Debt	\$64,358	\$64,358	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Operating Leases	33,758	12,620	8,128	5,266	3,534	2,300	1,910
Purchase Obligations	100,424	93,186	3,224	3,254	760	0	0
Total Contractual Obligations ^(A)	\$198,540	\$170,164	\$11,352	\$8,520	\$4,294	\$2,300	\$1,910

^(A) The liabilities related to unrecognized tax benefits are not included in the above contractual obligations because the timing cannot be reliably estimated.

Details of other commercial commitments as at December 31, 2010 are as follows:

In \$000 s	Total	Amount of Commitment Expiration Per Period					
		Dec 31, 2011	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Thereafter

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Standby Letters of Credit	\$ 91	\$ 56	\$ 0	\$ 0	\$ 0	\$ 0	\$ 35
Guarantees*	73,285	67,334	1,194	958	628	318	2,853
Other Commercial Commitments	12	12	0	0	0	0	0
Total Commercial Commitments	\$ 73,388	\$ 67,402	\$ 1,194	\$ 958	\$ 628	\$ 318	\$ 2,888

* The above guarantees mainly relate to security provided as part of our Syndicated Facility Agreement and requirements under contractual obligations with insurance companies transacting with our German subsidiaries.

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RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources, Continued

Revolving Facility

On February 27, 2009, ResMed Inc., and our wholly-owned subsidiaries, ResMed Corp., ResMed EAP Holdings Inc. and ResMed Motor Technologies Inc., entered into a Third Amendment to the March 1, 2006 Second Amended and Restated Revolving Loan Agreement with Union Bank of California, N.A.

The Loan Agreement was modified in order that the revolving commitment remains at \$65 million, otherwise, it would have been reduced to \$55 million as of March 1, 2009. The Loan Agreement was also amended to modify certain financial covenants. The minimum fixed charge coverage ratio was revised to exclude capital expenditures related to construction of our new headquarters building. The requirement that ResMed Corp. and ResMed Motor Technologies Inc. maintain minimum earnings before interest, taxes, depreciation and amortization, or EBITDA, was increased to \$15 million. Finally, the requirement that we meet certain minimum liquidity levels was eliminated.

The entire outstanding principal amount must be repaid in full before March 1, 2011. The outstanding principal amount due under the revolving facility bears interest at a rate equal to LIBOR plus 0.75% to 1.00% (depending on the applicable leverage ratio). At December 31, 2010, there was \$64.1 million outstanding under this revolving facility, which we expect to repay in accordance with the terms of the Loan Agreement.

Syndicated Facility

On June 8, 2006, our wholly owned Australian subsidiary, ResMed Limited, entered into a Syndicated Facility Agreement with HSBC Bank Australia Limited as original financier, facility agent and security trustee, that provides for a loan in tranches (the "Syndicated Facility Agreement").

Tranche A was a Euro (EUR) 50 million five-year term loan facility that refinanced all amounts outstanding under a previous facility. Tranche A bore interest at a rate equal to LIBOR for deposits denominated in EUR plus a margin of 0.80% or 0.90%, depending on the ratio of the total debt to EBITDA of ResMed Inc. and its subsidiaries (the "ResMed Group") for the most recently completed fiscal year for the applicable interest period. The entire outstanding principal amount had to be repaid in full on June 8, 2011. At December 31, 2010, the Tranche A facility loan had been fully repaid.

Tranche B was a USD 15 million term loan facility that may only be used for the purpose of financing capital expenditures and other asset acquisitions by the ResMed Group. Tranche B bore interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars, USD or British Pounds Sterling plus a margin of 0.80% or 0.90%,

depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire principal amount had to be repaid in full on June 8, 2011. At December 31, 2010, the Tranche B facility loan had been fully repaid.

Tranche C was a USD 60 million term loan facility that could only be used for the purpose of the payment by ResMed Limited of a dividend to ResMed Holdings Limited, which would ultimately be paid to ResMed Inc. Tranche C bore interest at a rate equal to LIBOR for deposits denominated in EUR, Australian dollars or USD plus a margin of 0.70% or 0.80%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire outstanding principal amount was repaid in full during the year ended June 30, 2009. At December 31, 2010, the Tranche C loan facility was no longer available.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Liquidity and Capital Resources, Continued**

Simultaneous with the Syndicated Facility Agreement, ResMed Limited entered into a working capital agreement with HSBC Bank Australia Limited for revolving, letter of credit and overdraft facilities up to a total commitment of 6.5 million Australian dollars, and ResMed (UK) Limited entered into a working capital agreement with HSBC Bank plc for a revolving cash advance facility for a total commitment of up to 3 million British Pounds Sterling. At September 30, 2010, there were no amounts outstanding under either of these facilities.

On September 30, 2008, our wholly-owned Australian subsidiary, ResMed Limited, agreed to amend and restate the Syndicated Facility Agreement entered into on June 8, 2006. The amended and restated agreement (First Amended and Restated Syndicated Facility Agreement) with the Hong Kong and Shanghai Banking Corporation, Sydney Branch as financier and HSBC Bank Australia Limited as facility agent and security trustee, provided for an additional Tranche D term loan facility in the amount of USD 50 million.

On September 30, 2009, ResMed Limited, agreed to amend and restate for a second time the Syndicated Facility Agreement. The second amended and restated agreement (Second Amended and Restated Syndicated Facility Agreement) provides for the extension of our Tranche D term loan facility in the amount of USD 50 million for an additional 12 month period and to increase the interest rate applicable to the Tranche D portion of the loan facility. The financier continued to have the right to assign part or all of its rights and/or obligations under the Second Amended and Restated Syndicated Facility Agreement to other financial institutions. The extended Tranche D loan facility bore interest at a rate equal to LIBOR for deposits denominated in USD, plus a margin of 2.25% or 2.50%, depending on the ratio of the total debt to EBITDA of the ResMed Group for the most recently completed fiscal year for the applicable interest period. The entire principal amount of the additional loan facility had been repaid by September 30, 2010. At December 31, 2010 there were no amounts outstanding under the Tranche D loan facility.

The Syndicated Facility Agreement is secured by a pledge of one hundred percent of the shares of ResMed Inc.'s subsidiary, Saime SAS, pursuant to a pledge agreement. The Syndicated Facility Agreement also contains customary covenants, including certain financial covenants and an obligation that ResMed Limited maintains certain financial ratios, including a minimum debt service cover ratio, a maximum ratio of total debt to EBITDA and a minimum tangible net worth. The entire principal amount of the loan and any accrued, but unpaid, interest may be declared immediately due and payable in the event of the occurrence of an event of default as defined in the Syndicated Facility Agreement. Events of default include, among other items, failure to make payments when due, breaches of representations, warranties or covenants, the occurrence of certain insolvency events, the occurrence of an event or change which could have a material adverse effect on ResMed Limited and its subsidiaries, and if ResMed Inc. ceases to control ResMed Limited, ResMed Corp., ResMed SAS, ResMed GmbH & Co. KG, ResMed (UK) Limited, Take Air Medical Handels-GmbH or ResMed Paris SAS (formerly Saime SAS).

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Liquidity and Capital Resources, Continued**

The obligations of ResMed Limited under the loan facility were subject to two guarantee and indemnity agreements, one on behalf of ResMed Inc. and its U.S. subsidiary, ResMed Corp., and another on behalf of ResMed's international subsidiaries, ResMed SAS (other than Tranche C), ResMed GmbH & Co. KG, ResMed (UK) Limited and Take Air Medical Handels-GmbH.

Prepayment Facility

During the quarter ended September 30, 2009, ResMed EPN Limited, our wholly owned UK subsidiary, obtained access to a Prepayment Facility with HSBC Invoice Finance (UK) Limited that provides for a cash advance facility up to a total commitment of 5 million British Pounds Sterling. These advances are limited to 75% of secured outstanding sales invoices. At December 31, 2010, there were no amounts outstanding under this facility.

We expect to satisfy all of our short-term liquidity requirements through a combination of cash on hand and cash generated from operations.

Common stock

On May 27, 2009, our Board of Directors approved a new share repurchase program, authorizing us to acquire up to an aggregate of 10.0 million shares of ResMed Inc. common stock. During the three and six months ended December 31, 2010, we repurchased 0.6 million and 0.9 million shares, at a cost of \$18.7 million and \$36.6 million. In conjunction with the stock split declared on August 5, 2010, the Board approved a doubling of the remaining number of shares, as at the date of the stock split that could be purchased under the above program, from 7.2 million shares to 14.3 million shares. Accordingly, the effective total number of shares that can be purchased under the May 27, 2009 program is 17.2 million shares. At December 31, 2010, we have repurchased a total of 10.2 million shares at a cost of \$381.1 million, and of which 6.6 million shares were repurchased pursuant to the repurchase program approved on June 6, 2002 and 3.5 million shares were repurchased pursuant to the new repurchase program approved on May 27, 2009. Shares that are repurchased are classified as treasury stock pending future use and reduce the number of shares outstanding used in calculating earnings per share. At December 31, 2010, 13.6 million additional shares can be repurchased under the share repurchase program approved May 27, 2009.

Stock Split

On August 5, 2010, our Board of Directors declared a two-for-one split of our common stock to be payable in the form of a 100% stock dividend. Shareholders received one additional share of common stock for every share held on

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August 17, 2010. All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 5, 2010 and distributed on August 30, 2010.

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RESMED INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Principles and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments that affect our reported amounts of assets and liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis we evaluate our estimates, including those related to allowance for doubtful accounts, inventory reserves, warranty obligations, goodwill, potentially impaired assets, intangible assets, income taxes and contingencies.

We state these accounting policies in the notes to the financial statements and at relevant sections in this discussion and analysis. The estimates are based on the information that is currently available to us and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could vary from those estimates under different assumptions or conditions.

We believe that the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements:

(1) Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments, which results in bad debt expense. We determine the adequacy of this allowance by regular evaluation of individual customer receivables, considering a customer's financial condition, credit history and current economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(2) Inventory Valuation. Inventories are stated at lower of cost or market and are determined by the first-in, first-out method. We review the components of inventory on a regular basis for excess, obsolete and impaired inventory based on estimated future usage and sales. The likelihood of any material inventory write-downs is dependent on changes in competitive conditions, new product introductions by us or our competitors, or rapid changes in customer demand.

(3) Valuation of Deferred Income Taxes. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets is dependent on future taxable income, the intrinsic value of stock options, our ability to deduct tax loss carry forwards against future taxable income, the effectiveness of our tax planning strategies among the various tax jurisdictions that we operate in, and any significant changes in the tax treatment received on our business combinations.

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RESMED INC. AND SUBSIDIARIES**Management's Discussion and Analysis of Financial Condition and Results of Operations****Critical Accounting Principles and Estimates, Continued**

(4) Valuation of Goodwill, Intangible and Other Long-Lived Assets. We use assumptions in establishing the carrying value, fair value and estimated lives of our long-lived assets and goodwill. The criteria used for these evaluations include management's estimate of an asset's continuing ability to generate positive income from operations and positive cash flow in future periods compared to the carrying value of the asset, as well as the strategic significance of any identifiable intangible asset in our business objectives. If assets are considered to be impaired, the impairment recognized is the amount by which the carrying value of the assets exceeds the fair value of the assets. Useful lives and related amortization or depreciation expense are based on our estimate of the period that the assets will generate revenues or otherwise be used by us. Factors that would influence the likelihood of a material change in our reported results include significant changes in the asset's ability to generate positive cash flow, loss of legal ownership or title to the asset, a significant decline in the economic and competitive environment on which the asset depends, significant changes in our strategic business objectives, utilization of the asset, and a significant change in the economic and/or political conditions in certain countries.

(5) Provision for Warranty. We provide for the estimated cost of product warranties at the time the related revenue is recognized. The amount of this provision is determined by using a financial model, which takes into consideration actual, historical expenses and potential risks associated with our different products. This financial model is then used to calculate the future probable expenses related to warranty and the required level of the warranty provision. Although we engage in product improvement programs and processes, our warranty obligation is affected by product failure rates and costs incurred to correct those product failures. Should actual product failure rates or estimated costs to repair those product failures differ from our estimates, revisions to our estimated warranty provision would be required.

(6) Revenue Recognition. Revenue on product sales is recorded at the time of shipment, at which time title and risk of loss transfers to the customer. Revenue on product sales, which require customer acceptance, is not recorded until acceptance is received. Royalty revenue from license agreements is recorded when earned. Service revenue received in advance from service contracts is initially deferred and recognized ratably over the life of the service contract. Revenue received in advance from rental unit contracts is initially deferred and recognized ratably over the life of the rental contract. Revenue from sale of marketing and distribution rights is initially deferred and recognized ratably as revenue over the life of the contract. Freight charges billed to customers are included in revenue. All freight-related expenses are charged to cost of sales. We do not recognize revenues to the extent that we offer a right of return or other recourse with respect to the sale of our products, other than returns for product defects or other warranty claims, nor do we recognize revenues if we offer variable sale prices for subsequent events or activities. As part of our sales processes we may provide upfront discounts for large orders, one-time special pricing to support new product introductions, sales rebates for centralized purchasing entities or price-breaks for regular order volumes. The costs of

all such programs are recorded as an adjustment to revenue. Our products are predominantly therapy-based equipment and require no installation. As such, we have no significant installation obligations.

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Critical Accounting Principles and Estimates, Continued

(7) Stock-Based Compensation. We measure the compensation of all stock-based awards at fair value on date of grant. Such value is recognized as compensation expense over the service period, net of estimated forfeitures. We estimate the fair value of employee stock options using a Black-Scholes valuation model. The fair value of an award is affected by our stock price on the date of grant as well as other assumptions including the estimated volatility of our stock price over the term of the awards and the estimated period of time that we expect employees to hold their stock options. The risk-free interest rate assumption we use is based upon U.S. Treasury yield curve appropriate for the expected life of the awards. Expected volatilities are based on a combination of historical volatilities of our stock and the implied volatilities from traded options of our stock corresponding to the expected term of the options. We use a combination of the historic and implied volatilities as we believe the addition of the implied volatility is more representative of our future stock price trends. In order to determine the estimated period of time that we expect employees to hold their stock options, we have used historical rates by employee groups. The estimation of stock awards, including options and restricted stock units, that will ultimately vest requires judgment, and to the extent actual results differ from our estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. The aforementioned inputs entered into the option valuation model we use to fair value our stock awards are subjective estimates and changes to these estimates will cause the fair value of our stock awards and related stock-based compensation expense we record to vary.

(8) Income Tax. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50 percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements.

Off-Balance Sheet Arrangements

As of December 31, 2010, we are not involved in any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC.

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Item 3

RESMED INC. AND SUBSIDIARIES**Item 3. Quantitative and Qualitative Disclosures About Market Risk
Foreign Currency Market Risk**

Our reporting currency is the U.S. dollar, although the financial statements of our non-U.S. subsidiaries are maintained in their respective local currencies. We transact business in various foreign currencies, including a number of major European currencies as well as the Australian dollar. We have significant foreign currency exposure through both our Australian manufacturing activities and international sales operations. We have established a foreign currency hedging program using purchased currency options and forward contracts to hedge foreign-currency-denominated financial assets, liabilities and manufacturing expenditures. The goal of this hedging program is to economically manage the financial impact of foreign currency exposures denominated in Euros and Australian dollars. Under this program, increases or decreases in our foreign-currency-denominated financial assets, liabilities, and firm commitments are partially offset by gains and losses on the hedging instruments. We do not enter into financial instruments for trading or speculative purposes.

The table below provides information in U.S. dollar equivalents on our significant foreign-currency-denominated financial assets and liabilities at December 31, 2010 (in thousands):

	Australian Dollar (AUD)	U.S. Dollar (USD)	Euro (EUR)	Great Britain Pound (GBP)	Canadian Dollar (CAD)	Singapore Dollar (SGD)
AUD Functional Currency Entities:						
Assets	\$ 0	\$ 100,020	\$ 54,158	\$ 1,328	\$ 0	\$ 59
Liability	0	(89,399)	(45,930)	(147)	0	(133)
Net Total	0	10,621	8,228	1,181	0	(74)
USD Functional Currency Entities:						
Assets	0	0	0	0	9,431	0
Liability	0	0	0	0	0	0
Net Total	0	0	0	0	9,431	0
EURO Functional Currency Entities:						
Assets	0	1	0	0	0	0
Liability	0	(128)	0	(1,151)	0	0
Net Total	0	(127)	0	(1,151)	0	0
GBP Functional Currency Entities:						
Assets	0	0	869	0	0	0
Liability	0	(17)	(304)	0	0	0
Net Total	0	(17)	565	0	0	0
SGD Functional Currency Entities:						
Assets	1,613	20,317	12,040	273	0	0
Liability	(2,297)	(32,913)	(4,232)	0	0	0
Net Total	(684)	(12,596)	7,808	273	0	0
INR Functional Currency Entities:						

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Assets	0	0	0	0	0	0
Liability	0	(1,995)	(500)	0	0	0
Net Total	0	(1,995)	(500)	0	0	0

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Item 3

RESMED INC. AND SUBSIDIARIES**Quantitative and Qualitative Disclosures About Market Risk****Foreign Currency Market Risk, Continued**

The table below provides information about our foreign currency derivative financial instruments and presents the information in U.S. dollar equivalents. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates, including foreign currency hedges held at December 31, 2010. The table presents the notional amounts and weighted average exchange rates by contractual maturity dates for our foreign currency derivative financial instruments. These notional amounts generally are used to calculate payments to be exchanged under our option contracts.

(In thousands except exchange rates)					Fair Value Assets / (Liabilities)	
	FY 2011	FY 2012	FY 2013	Total	Dec 31, 2010	Jun 30, 2010
Foreign Exchange Call Options						
Receive AUD/Pay USD						
Option amount	\$27,500	\$70,000	\$10,000	\$107,500	\$9,632	\$3,855
Ave. contractual exchange rate	AUD 1 = USD 0.8347	AUD 1 = USD 0.9243	AUD 1 = USD 0.8200	AUD 1 = USD 0.8894		
Receive AUD/Pay Euro						
Option amount	\$29,361	\$31,363	\$6,673	\$67,397	\$8,803	\$6,907
Ave. contractual exchange rate	AUD 1 = Euro 0.5899	AUD 1 = Euro 0.6694	AUD 1 = Euro 0.7500	AUD 1 = Euro 0.6975		

Interest Rate Risk

We are exposed to risk associated with changes in interest rates affecting the return on our cash and cash equivalents, investment securities and debt. At December 31, 2010, we maintained cash and cash equivalents of \$616.2 million containing financial instruments that have original maturities of less than 90 days. These financial instruments are principally comprised of bank term deposits and at call accounts and are invested at both short term fixed interest rates and variable interest rates. At December 31, 2010, we had total long-term debt, including the current portion of those obligations, of \$64.4 million. All of this debt is subject to variable interest rates. A hypothetical 10% change in interest rates during the three months ended December 31, 2010, would not have had a material impact on pretax income. We have no interest rate hedging agreements.

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Item 4

RESMED INC. AND SUBSIDIARIES

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance management necessarily was required to apply its judgment in evaluating the cost benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2010.

There has been no change in our internal controls over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II - OTHER INFORMATION

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RESMED INC. AND SUBSIDIARIES

Item 1 Legal Proceedings

The information required by this Item is incorporated herein by reference to Note 11, Legal Actions and Contingencies, to the unaudited condensed consolidated financial statements under Part I, Item 1 of this report.

Item 1A Risk Factors

The discussion of our business and operations should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, which was filed with the SEC and describes the various risks and uncertainties to which we are or may become subject. At December 31, 2010, there have been no material changes to the risk factors set forth in our Annual Report on Form 10-K for the year ended June 30, 2010, except for the following:

Health care reform, including recently enacted United States legislation, may have a material adverse effect on our industry and our results of operations. In March 2010, the President signed the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Affordability Reconciliation Act (collectively, the PPACA), which makes changes that are expected to impact the pharmaceutical and medical device industries. One of the principal aims of the PPACA as currently enacted is to expand health insurance coverage to approximately 32 million Americans who are currently uninsured. We cannot predict the impact of these coverage expansions, if any, on the sales of our products.

The PPACA also contains a number of provisions designed to generate the revenues necessary to fund the coverage expansions among other things. This includes new fees or taxes on certain health-related industries, including medical device manufacturers. Beginning in 2013, with limited exceptions, entities that manufacture, produce or import medical devices will be required to pay a deductible excise tax in an amount equal to 2.3 percent of the price for which such devices are sold in the United States. Though there are some exceptions to the excise tax, this excise tax does apply to all of the Company's products. The PPACA also includes, among other things, the expansion of round 2 of competitive bidding to a total of 91 CBA's, and by 2016, the process must be nationalized or prices in non-competitive bidding areas must be adjusted to match competitive bidding prices; and the establishment of a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in and conduct comparative clinical effectiveness research.

Moreover, in January 2011, the FDA announced twenty-five specific action items it intends to take with respect to the 510(k) process. FDA issued its recommendations and proposed action items in response to concerns from both within and outside of FDA about the 510(k) program. Although FDA has not detailed the specific modifications or clarifications that the Agency intends to make to its guidances, policies, and regulations pertaining to the review and regulation of devices such as ours which seek and receive marketing clearance through the 510(k) process, the FDA's announced action items signal that additional regulatory requirements are likely. In particular, the FDA intends to issue a variety of draft guidances and regulations over the coming months which would, among other things, clarify

when changes to a cleared medical device warrant a new 510(k) and which modifications would be eligible for a Special 510(k), establish a Unique Device Identification System, and clarify FDA's use and application of several key terms in the 510(k) review process. These reforms, when implemented, could impose additional regulatory requirements upon us which could delay our ability to obtain new clearances, increase the costs of compliance, or restrict our ability to maintain our current clearances.

Various healthcare reform proposals have also emerged at the state level in the United States. We cannot predict whether future healthcare initiatives will be implemented at the federal or state level or the effect any future legislation or regulation will have on us. The taxes imposed by the new federal legislation and, the expansion in the federal government's role in the U.S. healthcare industry and the increased funding and focus on comparative clinical effectiveness research that compares and evaluates the risks and benefits, clinical outcomes, effectiveness and appropriateness of products may result in decreased profits to us, lower reimbursements by payors for our products, and reduced medical procedure volumes. The PPACA as well as other state and/or federal healthcare reform measures that may be adopted in the future could have a material adverse effect on our business, financial condition and results of operations.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of equity securities. The following table summarizes purchases by us of our common stock during the six months ended December 31, 2010:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ^{(1),(2)}
July 1 July 31, 2010	50,000	\$ 59.53	9,271,768	7,351,139
August 1 August 30, 2010	194,495	54.25	9,516,263	7,156,644
Stock split adjustment (1)				14,313,288
August 31 September 30, 2010	102,900	30.85	9,569,163	14,210,388
October 1 October 31, 2010	394,110	31.22	9,963,273	13,816,278
November 1 November 30, 2010	201,000	31.94	10,164,273	13,615,278
December 1 December 31, 2010				13,615,278
Total	942,505	\$ 37.58	10,164,273	13,615,278

⁽¹⁾ On May 27, 2009, the Board of Directors authorized us to repurchase up to 10.0 million shares of our outstanding common stock. There is no expiration date for this program. In conjunction with the stock split declared on August 5, 2010, the Board approved a doubling of the remaining number of shares, as at the date of the stock split that could be purchased under the above program, from 7.2 million shares to 14.3 million shares. Accordingly, the effective total number of shares that can be purchased under the May 27, 2009 program is 17.2 million shares. For the six months ended December 31, 2010 and 2009, we repurchased 942,505 and 2,790,086 shares at a cost of \$36.6 million and \$65.8 million, respectively. Since the inception of the share buyback program, we have repurchased 6,622,907 shares before May 27, 2009 and 3,541,366 shares after that date at a total cost of \$381.1 million.

⁽²⁾ All share and per share information has been adjusted to reflect the two-for-one stock split effected in the form of a 100% stock dividend that was declared on August 5, 2010 and distributed on August 30, 2010.

Item 3 **Defaults Upon Senior Securities**

None

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RESMED INC. AND SUBSIDIARIES

Item 4 **Removed and Reserved**

Item 5 **Other Information**
None

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RESMED INC. AND SUBSIDIARIES

Item 6 Exhibits

Exhibits (numbered in accordance with Item 601 of Regulation S-K)

- 3.1 First Restated Certificate of Incorporation of ResMed Inc. ⁽¹⁾
- 3.2 Fourth Amended and Restated Bylaws of ResMed Inc. ⁽²⁾
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following financial statements from ResMed Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2010, filed on February 2, 2011, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Cash Flows, (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

⁽¹⁾ Incorporated by reference to Exhibit 3.1 to the Registrants' Annual Report on Form 10-K for the Fiscal Year ended June 30, 2007.

⁽²⁾ Incorporated by reference to Exhibit 3.1 to the Registrants' Current Report on Form 8-K filed on December 14, 2007.

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SIGNATURES

RESMED INC. AND SUBSIDIARIES

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.

February 2, 2011

ResMed Inc.

/s/ PETER C. FARRELL

Peter C. Farrell
Executive Chairman of the Board, Interim
Chief Executive Officer and President
(Principal Executive Officer)

/s/ BRETT A. SANDERCOCK

Brett A. Sandercock
Chief Financial Officer
(Principal Financial Officer)

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