
**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 March 31, 2023

OR

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

For the transition period from _____ to _____

Commission File Number 000-23125

 **OSI SYSTEMS, INC.**

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

33-0238801
(I.R.S. Employer
Identification No.)

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

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	OSIS	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 25, 2023, there were 16,727,882 shares of the registrant's common stock outstanding.

OSI SYSTEMS, INC.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(amounts in thousands, except share amounts and par value)

	June 30, 2022	March 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 64,202	\$ 65,622
Accounts receivable, net	307,973	300,663
Inventories	333,907	371,795
Prepaid expenses and other current assets	40,062	40,454
Total current assets	746,144	778,534
Property and equipment, net	109,684	109,139
Goodwill	336,357	346,716
Intangible assets, net	138,370	140,192
Other assets	112,595	108,722
Total assets	\$ 1,443,150	\$ 1,483,303
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Bank lines of credit	\$ 60,000	\$ 215,000
Current portion of long-term debt	244,575	8,080
Accounts payable	125,204	127,255
Accrued payroll and related expenses	46,379	48,287
Advances from customers	19,917	33,841
Other accrued expenses and current liabilities	117,879	117,950
Total current liabilities	613,954	550,413
Long-term debt	48,668	138,190
Deferred income taxes	11,112	11,794
Other long-term liabilities	130,992	115,989
Total liabilities	804,726	816,386
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.001 par value— 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.001 par value—100,000,000 shares authorized; issued and outstanding, 16,870,050 shares at June 30, 2022 and 16,727,121 shares at March 31, 2023	17	17
Retained earnings	663,869	693,576
Accumulated other comprehensive loss	(25,462)	(26,676)
Total stockholders' equity	638,424	666,917
Total liabilities and stockholders' equity	\$ 1,443,150	\$ 1,483,303

See accompanying notes to condensed consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(amounts in thousands, except per share data)

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net revenues:				
Products	\$ 221,857	\$ 223,724	\$ 634,446	\$ 637,563
Services	68,620	79,165	211,969	228,994
Total net revenues	290,477	302,889	846,415	866,557
Cost of goods sold:				
Products	150,311	156,534	432,277	458,197
Services	37,308	42,569	112,177	120,870
Total cost of goods sold	187,619	199,103	544,454	579,067
Gross profit	102,858	103,786	301,961	287,490
Operating expenses:				
Selling, general and administrative	57,813	53,707	170,015	161,148
Research and development	15,150	14,852	44,944	43,848
Impairment, restructuring and other charges, net	1,469	890	4,810	4,366
Total operating expenses	74,432	69,449	219,769	209,362
Income from operations	28,426	34,337	82,192	78,128
Interest and other expense, net	(2,301)	(5,727)	(6,534)	(14,339)
Other income, net	27,373	—	27,373	—
Income before income taxes	53,498	28,610	103,031	63,789
Provision for income taxes	(10,763)	(6,802)	(21,447)	(14,392)
Net income	<u>\$ 42,735</u>	<u>\$ 21,808</u>	<u>\$ 81,584</u>	<u>\$ 49,397</u>
Earnings per share:				
Basic	<u>\$ 2.45</u>	<u>\$ 1.30</u>	<u>\$ 4.60</u>	<u>\$ 2.93</u>
Diluted	<u>\$ 2.41</u>	<u>\$ 1.27</u>	<u>\$ 4.52</u>	<u>\$ 2.88</u>
Shares used in per share calculation:				
Basic	<u>17,417</u>	<u>16,809</u>	<u>17,734</u>	<u>16,858</u>
Diluted	<u>17,709</u>	<u>17,184</u>	<u>18,036</u>	<u>17,151</u>

See accompanying notes to condensed consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(amounts in thousands)

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net income	\$ 42,735	\$ 21,808	\$ 81,584	\$ 49,397
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of tax	(1,981)	1,569	(4,907)	(3,309)
Net unrealized gain (loss) on investments and derivatives, net of tax	—	(1,430)	—	1,098
Other, net of tax	132	332	396	997
Other comprehensive income (loss)	(1,849)	471	(4,511)	(1,214)
Comprehensive income	<u>\$ 40,886</u>	<u>\$ 22,279</u>	<u>\$ 77,073</u>	<u>\$ 48,183</u>

See accompanying notes to condensed consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(amounts in thousands, except share data)

	Three Months Ended March 31, 2022				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount			
Balance—December 31, 2021	17,643,903	\$ 30,909	\$ 606,647	\$ (17,408)	\$ 620,148
Vesting of RSUs	6,027	—	—	—	—
Shares issued under employee stock purchase program	32,105	2,307	—	—	2,307
Stock-based compensation expense	—	6,898	—	—	6,898
Repurchase of common stock	(635,962)	(39,904)	(11,648)	—	(51,552)
Taxes paid related to net share settlement of equity awards	(2,220)	(193)	—	—	(193)
Net income	—	—	42,735	—	42,735
Other comprehensive loss	—	—	—	(1,849)	(1,849)
Balance—March 31, 2022	<u>17,043,853</u>	<u>\$ 17</u>	<u>\$ 637,734</u>	<u>\$ (19,257)</u>	<u>\$ 618,494</u>

	Three Months Ended March 31, 2023				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount			
Balance—December 31, 2022	16,819,609	\$ 2,530	\$ 672,371	\$ (27,147)	\$ 647,754
Exercise of stock options	11,848	891	—	—	891
Vesting of RSUs	5,510	—	—	—	—
Shares issued under employee stock purchase program	30,652	2,072	—	—	2,072
Stock-based compensation expense	—	7,112	—	—	7,112
Repurchase of common stock	(138,469)	(12,362)	(603)	—	(12,965)
Taxes paid related to net share settlement of equity awards	(2,029)	(226)	—	—	(226)
Net income	—	—	21,808	—	21,808
Other comprehensive income	—	—	—	471	471
Balance—March 31, 2023	<u>16,727,121</u>	<u>\$ 17</u>	<u>\$ 693,576</u>	<u>\$ (26,676)</u>	<u>\$ 666,917</u>

	Nine Months Ended March 31, 2022				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount			
Balance—June 30, 2021	17,854,110	\$ 105,724	\$ 548,842	\$ (14,746)	\$ 639,820
Exercise of stock options	164,612	311	—	—	311
Vesting of RSUs	335,099	—	—	—	—
Shares issued under employee stock purchase program	60,065	4,297	—	—	4,297
Stock-based compensation expense	—	20,986	—	—	20,986
Repurchase of common stock	(1,117,258)	(85,184)	(11,648)	—	(96,832)
Taxes paid related to net share settlement of equity awards	(252,775)	(19,354)	—	—	(19,354)
Adoption of ASU 2020-06 for convertible notes	—	(26,763)	18,956	—	(7,807)
Net income	—	—	81,584	—	81,584
Other comprehensive loss	—	—	—	(4,511)	(4,511)
Balance—March 31, 2022	<u>17,043,853</u>	<u>\$ 17</u>	<u>\$ 637,734</u>	<u>\$ (19,257)</u>	<u>\$ 618,494</u>

	Nine Months Ended March 31, 2023				
	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Number of Shares	Amount			
Balance—June 30, 2022	16,870,050	\$ 17	\$ 663,869	\$ (25,462)	\$ 638,424
Exercise of stock options	19,614	1,330	—	—	1,330
Vesting of RSUs	312,038	—	—	—	—
Shares issued under employee stock purchase program	59,255	4,041	—	—	4,041
Stock-based compensation expense	—	21,528	—	—	21,528
Repurchase of common stock	(400,230)	(17,067)	(17,682)	—	(34,749)
Taxes paid related to net share settlement of equity awards	(133,606)	(9,832)	(2,008)	—	(11,840)
Net income	—	—	49,397	—	49,397
Other comprehensive loss	—	—	—	(1,214)	(1,214)
Balance—March 31, 2023	<u>16,727,121</u>	<u>\$ 17</u>	<u>\$ 693,576</u>	<u>\$ (26,676)</u>	<u>\$ 666,917</u>

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(amounts in thousands)

	Nine Months Ended March 31,	
	2022	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 81,584	\$ 49,397
Adjustments to reconcile net income to net cash provided by operating activities, net of effects from acquisitions:		
Depreciation and amortization	28,980	28,819
Stock-based compensation expense	20,986	21,528
Recovery of losses on accounts receivable	(3,836)	(4,890)
Deferred income taxes	1,448	942
Amortization of debt discount and issuance costs	1,045	196
Gain on sale of property and equipment	(27,373)	—
Other	(1,074)	(46)
Changes in operating assets and liabilities—net of business acquisitions:		
Accounts receivable	10,613	13,248
Inventories	(53,766)	(37,860)
Prepaid expenses and other assets	8,010	(4,924)
Accounts payable	(11,000)	2,134
Accrued payroll and related expenses	(9,837)	2,151
Advances from customers	7,523	13,963
Other	(11,490)	(11,980)
Net cash provided by operating activities	<u>41,813</u>	<u>72,678</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(10,293)	(12,691)
Proceeds from sale of property and equipment	32,304	309
Purchases of certificates of deposit	(2,201)	(4,940)
Proceeds from certificates of deposit	55	3,827
Acquisition of businesses, net of cash acquired	(14,132)	(4,616)
Payments for intangible and other assets	(12,320)	(12,275)
Net cash used in investing activities	<u>(6,587)</u>	<u>(30,386)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on bank lines of credit	73,000	155,000
Proceeds from long-term debt	50,285	100,654
Payments on long-term debt	(40,893)	(247,818)
Proceeds from exercise of stock options and employee stock purchase plan	4,608	5,371
Payments of contingent consideration	(1,671)	(3,668)
Repurchases of common stock	(96,832)	(34,749)
Taxes paid related to net share settlement of equity awards	(19,354)	(11,840)
Net cash used in financing activities	<u>(30,857)</u>	<u>(37,050)</u>
Effect of exchange rate changes on cash	(1,703)	(3,822)
Net change in cash and cash equivalents	2,666	1,420
Cash and cash equivalents—beginning of period	80,613	64,202
Cash and cash equivalents—end of period	<u>\$ 83,279</u>	<u>\$ 65,622</u>
Supplemental disclosure of cash flow information:		
Cash paid, net during the period for:		
Interest	<u>\$ 5,851</u>	<u>\$ 14,648</u>
Income taxes	<u>\$ 9,964</u>	<u>\$ 15,769</u>

See accompanying notes to condensed consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements include the accounts of OSI Systems, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and in conjunction with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded in accordance with SEC rules and regulations and GAAP applicable to interim unaudited financial statements. Accordingly, the condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for audited annual financial statements. In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. These unaudited condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 filed with the SEC. There have been no material changes to our significant accounting policies from those disclosed therein. The accompanying condensed consolidated balance sheet as of June 30, 2022 was derived from the Company's audited consolidated financial statements at that date. The results of operations for the three and nine months ended March 31, 2023 are not necessarily indicative of the operating results to be expected for the full 2023 fiscal year or any future periods.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales, costs of sales and expenses during the reporting period. The most significant of these estimates and assumptions for our company relate to contract revenue, fair values of assets acquired and liabilities assumed in business combinations, values for inventories reported at lower of cost or net realizable value, stock-based compensation expense, income taxes, accrued warranty costs, and the recoverability, useful lives and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the periods during which they become known. Due to the inherent uncertainty involved in making estimates, our actual amounts reported in future periods could differ materially from these estimates.

Earnings Per Share Computations

We compute basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. We compute diluted earnings per share by dividing net income available to common stockholders by the sum of the weighted average number of common shares and dilutive potential common shares outstanding during the period. Potential common shares consist of the shares issuable upon the exercise of stock options and restricted stock unit awards under the treasury stock method.

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

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net income available to common stockholders	\$ 42,735	\$ 21,808	\$ 81,584	\$ 49,397
Weighted average shares outstanding—basic	17,417	16,809	17,734	16,858
Dilutive effect of equity awards	292	375	302	293
Weighted average shares outstanding—diluted	17,709	17,184	18,036	17,151
Basic earnings per share	\$ 2.45	\$ 1.30	\$ 4.60	\$ 2.93
Diluted earnings per share	\$ 2.41	\$ 1.27	\$ 4.52	\$ 2.88
Shares excluded from diluted earnings per share due to their anti-dilutive effect	211	60	62	75

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We consider all highly liquid investments with maturities of three months or less as of the acquisition date to be cash equivalents.

Our cash and cash equivalents totaled \$65.6 million at March 31, 2023. Of this amount, approximately 81% was held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were held primarily by our subsidiaries in the United Kingdom, India, Singapore, Malaysia and Canada, and to a lesser extent in Mexico, Indonesia, Albania and Australia. We have cash holdings in financial institutions that exceed insured limits for such financial institutions; we mitigate this risk, however, by utilizing international financial institutions of high credit quality.

Fair Value of Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, insurance company contracts, accounts receivable, accounts payable, debt instruments, an interest rate swap contract and foreign currency forward contracts. The carrying values of financial instruments, other than long-term debt instruments and the interest rate swap contract, are representative of their fair values due to their short-term maturities. The carrying values of our long-term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates for financing available to us. The fair values of our foreign currency forward contracts were not significant as of June 30, 2022 and March 31, 2023.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Level 1 category includes assets and liabilities measured at quoted prices in active markets for identical assets and liabilities. The Level 2 category includes assets and liabilities measured from observable inputs other than quoted market prices. The Level 3 category includes assets and liabilities for which valuation inputs are unobservable and significant to the fair value measurement. Our contingent payment obligations related to acquisitions, which are further discussed in Note 10 to the condensed consolidated financial statements, are in the Level 3 category for valuation purposes.

The fair values of our financial assets and liabilities are categorized as follows (in thousands):

	June 30, 2022				March 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets—Insurance company contracts	\$ —	\$ 40,284	\$ —	\$ 40,284	\$ —	\$ 43,471	\$ —	\$ 43,471
Assets – Interest rate swap contract	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,641	\$ —	\$ 1,641
Liabilities—Convertible debt	\$ —	\$ 242,302	\$ —	\$ 242,302	\$ —	\$ —	\$ —	\$ —
Liabilities—Contingent consideration	\$ —	\$ —	\$ 28,212	\$ 28,212	\$ —	\$ —	\$ 20,060	\$ 20,060

Derivative Instruments and Hedging Activity

Our use of derivatives consists of foreign currency forward contracts and an interest rate swap agreement. The foreign currency forward contracts are utilized to partially mitigate certain balance sheet exposures or used as a net investment hedge to protect against potential changes resulting from short-term foreign currency fluctuations. These contracts have original maturities of up to three months. We also manage our risk to changes in interest rates using derivative instruments. We use fixed interest rate swaps to effectively convert a portion of the variable interest rate payments to fixed interest rate payments. We do not use hedging instruments for speculative purposes.

The net gains or losses from our foreign currency forward contracts, which are not designated as hedge instruments, are reported in the consolidated statements of operations. The amounts reported in the consolidated statements of operations for the three and nine months ended March 31, 2022 and 2023 were not significant. The fair value of our foreign currency forward contracts is estimated using a standard valuation model and market-based observable inputs over the contractual term. Unrealized gains are recognized as assets and unrealized losses are recognized as liabilities. As of June 30, 2022 and March 31, 2023, we held foreign currency forward contracts with notional amounts totaling \$22.9 million and \$19.8 million, respectively. Unrealized gains and losses from our foreign currency forward contracts as of March 31, 2022 and 2023 were not significant.

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The interest rate swap agreement was entered into to improve the predictability of cash flows from interest payments related to our variable, Secured Overnight Financing Rate (“SOFR”) based debt. The interest rate swap matures in December 2026. The interest rate swap is considered an effective cash flow hedge, and as a result, the net gains or losses on such instrument are reported as a component of other comprehensive income (loss) in the consolidated financial statements and are reclassified as net income when the underlying hedged interest impacts earnings. A qualitative and quantitative assessment over the hedge effectiveness is performed on a quarterly basis, unless facts and circumstances indicate that the hedge may no longer be highly effective.

As of June 30, 2022 and March 31, 2023, the notional amount of the derivative instruments designated as an interest rate swap hedge was \$0 and \$175 million, respectively. The fair value of the interest rate swap contract as of March 31, 2023 was \$1.6 million and is recorded in Other assets within the condensed consolidated balance sheet.

The effect of the cash flow hedges on other comprehensive income (loss) and earnings for the periods presented was as follows:

	<u>Three Months Ended March 31,</u>		<u>Nine Months Ended March 31,</u>	
	<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Total interest and other expense, net presented in the condensed consolidated statements of operations in which the effects of cash flow hedges are recorded	\$ (2,301)	\$ (5,727)	\$ (6,534)	\$ (14,339)
Gain (loss) recognized in other comprehensive income (loss)	—	(1,430)	—	1,098
Amount reclassified from accumulated other comprehensive income (loss) to interest expense, net	—	(558)	—	(587)

Recently Adopted Accounting Pronouncement

Contract Assets and Contract Liabilities from Revenue Contracts with Customers in a Business Combination

In October 2021, the FASB issued Accounting Standards Update 2021-08, an accounting standard update to improve the accounting for contract assets and contract liabilities from revenue contracts with customers in a business combination (Topic 805). This amendment improves comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination. We adopted the new guidance effective January 1, 2022 using the prospective approach and applied the amendments to the business combinations that occurred during the year ended June 30, 2022 and the nine months ended March 31, 2023. The adoption of ASU 2021-08 did not have a material impact on our consolidated financial statements.

2. Business Combinations

Under Accounting Standards Codification Topic 805, *Business Combinations* (“ASC 805”), the acquisition method of accounting requires us to record assets acquired less liabilities assumed from an acquisition at their estimated fair values at the date of acquisition. Any excess of the total estimated purchase price over the estimated fair value of the net assets acquired should be recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired customers, acquired technology, trade names, useful lives and discount rates. Management’s estimates of fair value are based upon assumptions which are believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is up to one year from the acquisition date, as additional information that existed at the acquisition date becomes available for preliminary estimates, we may record adjustments to the preliminary assets acquired and liabilities assumed. Any adjustments subsequent to the conclusion of such measurement period are reflected in reported earnings.

Fiscal Year 2023 Business Acquisitions

In February 2023, we (through our Healthcare division) acquired a privately held provider of software and solutions for approximately \$2.1 million plus up to \$5 million in potential contingent consideration. The acquisition was financed with cash on hand.

Through our Security division, we acquired (i) in December 2022 certain assets of a provider of baggage and parcel inspection systems for approximately \$1.6 million and (ii) in August 2022 a privately held provider of training software and solutions for approximately \$1.9 million plus an immaterial amount of potential contingent consideration. These acquisitions were financed with cash on hand.

Fiscal Year 2022 Business Acquisitions

In February 2022, we (through our Security division) acquired a privately held provider of intelligent inspection, sensory, and recognition solutions for approximately \$14 million plus up to \$25 million in potential contingent consideration. The acquisition was financed with cash on hand and borrowings under our revolving bank line of credit.

We (through our Security division) also acquired in February 2022 a privately held sales and services company for approximately \$1.1 million, plus an immaterial amount of potential contingent consideration. The acquisition was financed with cash on hand.

These business acquisitions, individually and in aggregate, were not material to our consolidated financial statements. Accordingly, pro forma historical results of operations and other disclosures related to these businesses have not been presented.

3. Balance Sheet Details

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

	June 30, 2022	March 31, 2023
Accounts receivable, net		
Accounts receivable	\$ 326,849	\$ 314,121
Less allowance for doubtful accounts	(18,876)	(13,458)
Total	<u>\$ 307,973</u>	<u>\$ 300,663</u>
Inventories		
Raw materials	\$ 213,290	\$ 233,458
Work-in-process	46,873	63,181
Finished goods	73,744	75,156
Total	<u>\$ 333,907</u>	<u>\$ 371,795</u>
Property and equipment, net		
Land	\$ 15,028	\$ 15,676
Buildings, civil works and improvements	47,309	49,023
Leasehold improvements	11,599	13,924
Equipment and tooling	128,425	134,078
Furniture and fixtures	3,592	3,543
Computer equipment	21,208	23,061
Computer software	25,153	26,757
Computer software implementation in process	9,422	9,344
Construction in process	5,283	3,894
Total	267,019	279,300
Less accumulated depreciation and amortization	(157,335)	(170,161)
Property and equipment, net	<u>\$ 109,684</u>	<u>\$ 109,139</u>

Depreciation and amortization expense for property and equipment was \$5.4 million and \$4.9 million for the three months ended March 31, 2022 and 2023, respectively, and \$16.0 million and \$14.6 million for the nine months ended March 31, 2022 and 2023, respectively.

4. Goodwill and Intangible Assets

The changes in the carrying value of goodwill by segment for the nine-month period ended March 31, 2023 were as follows (in thousands)

	Security Division	Healthcare Division	Optoelectronics And Manufacturing Division	Consolidated
Balance as of June 30, 2022	\$ 225,555	\$ 43,187	\$ 67,615	\$ 336,357
Goodwill acquired or adjusted during the period	5,659	5,050	—	10,709
Foreign currency translation adjustment	48	44	(442)	(350)
Balance as of March 31, 2023	<u>\$ 231,262</u>	<u>\$ 48,281</u>	<u>\$ 67,173</u>	<u>\$ 346,716</u>

Intangible assets consisted of the following (in thousands):

	June 30, 2022			March 31, 2023		
	Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:						
Software development costs	\$ 64,096	\$ (18,934)	\$ 45,162	\$ 73,826	\$ (19,289)	\$ 54,537
Patents	8,541	(2,987)	5,554	8,611	(3,297)	5,314
Developed technology	66,901	(31,071)	35,830	68,411	(36,487)	31,924
Customer relationships	53,736	(32,785)	20,951	54,109	(37,114)	16,995
Total amortizable assets	<u>193,274</u>	<u>(85,777)</u>	<u>107,497</u>	<u>204,957</u>	<u>(96,187)</u>	<u>108,770</u>
Non-amortizable assets:						
In-process R&D	533	—	533	533	—	533
Trademarks	30,340	—	30,340	30,889	—	30,889
Total intangible assets	<u>\$ 224,147</u>	<u>\$ (85,777)</u>	<u>\$ 138,370</u>	<u>\$ 236,379</u>	<u>\$ (96,187)</u>	<u>\$ 140,192</u>

Amortization expense related to intangible assets was \$4.4 million and \$4.8 million for the three months ended March 31, 2022 and 2023, respectively. For the nine months ended March 31, 2022 and 2023, amortization expense related to intangible assets was \$13.0 million and \$14.2 million, respectively.

At March 31, 2023, the estimated future amortization expense for intangible assets was as follows (in thousands):

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2023 (remaining 3 months)	\$ 4,820
2024	19,076
2025	15,950
2026	12,614
2027	8,731
Thereafter	47,579
Total	<u>\$ 108,770</u>

Software development costs for software products incurred before establishing technological feasibility are charged to operations. Software development costs incurred after establishing technological feasibility are capitalized on a product-by-product basis until the product is available for general release to customers at which time amortization begins. Annual amortization, charged to cost of goods sold, is the amount computed using the ratio that current revenues for a product bear to the total current and anticipated future revenues for that product. In the event that future revenues are not estimable, such costs are amortized on a straight-line basis over the remaining estimated economic life of the product. Amortizable assets that have not yet begun to be amortized are included in Thereafter in the table above. For the three months ended March 31, 2022 and 2023, we capitalized software development costs in the amounts of \$4.0 million and \$4.1 million, respectively. For the nine months ended March 31, 2022 and 2023, we capitalized software development costs in the amounts of \$11.7 million and \$12.0 million, respectively.

5. Contract Assets and Liabilities

We enter into contracts to sell products and provide services, and we recognize contract assets and liabilities that arise from these transactions. We recognize revenue and corresponding accounts receivable according to ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). When we recognize revenue in advance of the point in time at which contracts give us the right to invoice a customer, we record this as unbilled revenue, which is included in accounts receivable, net, on the consolidated balance sheets. We may also receive consideration, per the terms of a contract, from customers prior to transferring control of goods to the customer. We record customer deposits as contract liabilities. Additionally, we may receive payments, most typically under service and warranty contracts, at the onset of the contract and before services have been performed. In such instances, we record a deferred revenue liability in either Other accrued expenses and current liabilities or Other long-term liabilities. We recognize these contract liabilities as sales after all revenue recognition criteria are met.

The table below shows the balance of contract assets and liabilities as of June 30, 2022 and March 31, 2023, including the change between the periods. There were no substantial non-current contract assets for the periods presented.

Contract Assets (in thousands)

	June 30, 2022	March 31, 2023	Change	% Change
Unbilled revenue (included in accounts receivable, net)	\$ 43,287	\$ 67,769	\$ 24,482	57 %

Contract Liabilities (in thousands)

	June 30, 2022	March 31, 2023	Change	% Change
Advances from customers	\$ 19,917	\$ 33,841	\$ 13,924	70 %
Deferred revenue—current	31,396	44,447	13,051	42 %
Deferred revenue—long-term	20,476	21,928	1,452	7 %

Contract assets increased during the nine months ended March 31, 2023 primarily due to satisfaction of performance obligations for aviation, cargo and vehicle inspection customers in our Security division which have not yet been billed. The overall increase in contract liabilities was primarily due to receipt of upfront deposits from customers and deferred revenue from receipt of payments under service and warranty contracts primarily in our Security division.

Remaining Performance Obligations. Remaining performance obligations related to ASC 606 represent the portion of the transaction price allocated to performance obligations under an original contract with a term greater than one year which are fully or partially unsatisfied at the end of the period. As of March 31, 2023, the portion of the transaction price allocated to remaining performance obligations was approximately \$329.5 million. We expect to recognize revenue on approximately 52% of the remaining performance obligations over the next 12 months, and the remainder is expected to be recognized thereafter. During the nine months ended March 31, 2023, we recognized revenue of \$49.4 million from contract liabilities existing at the beginning of the period.

Practical Expedients. In cases where we are responsible for shipping after the customer has obtained control of the goods, we have elected to treat the shipping activities as fulfillment activities rather than as a separate performance obligation. Additionally, we have elected to capitalize the cost to obtain a contract only if the period of amortization would be longer than one year. We only give consideration to whether a customer agreement has a financing component if the period of time between transfer of goods and services and customer payment is greater than one year.

6. Leases

The components of operating lease expense were as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2023	2022	2023
Operating lease cost	\$ 2,704	\$ 2,850	\$ 7,354	\$ 8,525
Variable lease cost	263	328	650	1,055
Short-term lease cost	268	261	854	685
	<u>\$ 3,235</u>	<u>\$ 3,439</u>	<u>\$ 8,858</u>	<u>\$ 10,265</u>

Supplemental disclosures related to operating leases were as follows (in thousands):

	Balance Sheet Category	June 30, 2022	March 31, 2023
	Operating lease ROU assets, net	Other assets	<u>\$ 39,461</u>
Operating lease liabilities, current portion	Other accrued expenses and current liabilities	\$ 9,700	\$ 9,830
Operating lease liabilities, long-term	Other long-term liabilities	30,363	25,097
Total operating lease liabilities		<u>\$ 40,063</u>	<u>\$ 34,927</u>
Weighted average remaining lease term			4.7 years
Weighted average discount rate			3.7 %

Supplemental cash flow information related to operating leases was as follows (in thousands):

	Nine Months Ended March 31,	
	2022	2023
Cash paid for operating lease liabilities	\$ 7,549	\$ 8,631
ROU assets obtained in exchange for new lease obligations	9,519	2,658

Maturities of operating lease liabilities at March 31, 2023 were as follows (in thousands):

	March 31, 2023
Less than one year	\$ 11,039
1 – 2 years	9,083
2 – 3 years	7,184
3 – 4 years	6,587
4 – 5 years	3,118
Thereafter	1,449
	<u>38,460</u>
Less: imputed interest	(3,533)
Total lease liabilities	<u>\$ 34,927</u>

7. Impairment, Restructuring and Other Charges

We endeavor to align our global capacity and infrastructure with demand by our customers as well as fully integrate acquisitions and thereby improve operational efficiency.

During the three months ended March 31, 2023, we recognized \$0.9 million in restructuring and other charges, which included \$0.5 million for employee terminations, \$0.3 million in legal charges primarily related to government investigations, and \$0.1 million in acquisition-related costs and facility closure costs. During the three months ended March 31, 2022, we recognized \$1.5 million in restructuring and other charges, which included \$0.8 million in legal charges primarily related to class action litigation and government investigations, \$0.4 million for employee terminations, and \$0.3 million in acquisition related costs.

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During the nine months ended March 31, 2023, we recognized \$4.4 million in restructuring and other charges, which included \$3.2 million in legal charges primarily related to class action litigation and government investigations, \$1.0 million for employee terminations, and \$0.2 million in acquisition-related costs and facility closure costs. During the nine months ended March 31, 2022, we recognized \$4.8 million in restructuring and other charges, which included \$3.5 million in legal charges primarily related to class action litigation and government investigations, \$1.0 million in employee terminations and \$0.3 million in acquisition related costs.

The following tables summarize impairment, restructuring and other charges (benefits), net for the periods set forth below (in thousands):

Three Months Ended March 31, 2022					
	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Corporate	Total
Acquisition-related costs	\$ 221	\$ —	\$ —	\$ 56	\$ 277
Employee termination costs	409	—	—	—	409
Facility closures/consolidation	3	—	—	—	3
Legal costs, net	—	—	—	780	780
Total	\$ 633	\$ —	\$ —	\$ 836	\$ 1,469

Three Months Ended March 31, 2023					
	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Corporate	Total
Acquisition-related costs	\$ —	\$ —	\$ —	\$ 50	\$ 50
Employee termination costs	413	81	32	—	526
Facility closures/consolidation	35	—	—	—	35
Legal costs, net	45	226	—	8	279
Total	\$ 493	\$ 307	\$ 32	\$ 58	\$ 890

Nine Months Ended March 31, 2022					
	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Corporate	Total
Acquisition-related costs	\$ 221	\$ —	\$ —	\$ 56	\$ 277
Employee termination costs	1,077	—	—	—	1,077
Facility closures/consolidation	(37)	—	—	—	(37)
Legal costs, net	—	—	—	3,493	3,493
Total	\$ 1,261	\$ —	\$ —	\$ 3,549	\$ 4,810

Nine Months Ended March 31, 2023					
	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Corporate	Total
Acquisition-related costs	\$ 23	\$ —	\$ —	\$ 127	\$ 150
Employee termination costs	688	291	47	—	1,026
Facility closures/consolidation	35	—	—	—	35
Legal costs, net	613	2,462	—	80	3,155
Total	\$ 1,359	\$ 2,753	\$ 47	\$ 207	\$ 4,366

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The accrued liability for restructuring and other charges is included in other accrued expenses and current liabilities in the condensed consolidated balance sheets. The changes in the accrued liability for restructuring and other charges for the nine-month period ended March 31, 2023 were as follows (in thousands):

	Acquisition-Related Costs	Employee Termination Costs	Facility Closure/Consolidation Cost	Legal Costs and Settlements	Total
Balance as of June 30, 2022	\$ —	\$ 181	\$ 23	\$ 1,780	\$ 1,984
Restructuring and other charges, net	150	1,026	35	3,155	4,366
Payments, adjustments and reimbursements, net	(124)	(1,081)	1	(4,896)	(6,100)
Balance as of March 31, 2023	<u>\$ 26</u>	<u>\$ 126</u>	<u>\$ 59</u>	<u>\$ 39</u>	<u>\$ 250</u>

8. Borrowings

Revolving Credit Facility

In December 2021, we entered into an amendment to the senior secured credit facility that increased the aggregate amount available to borrow from \$535 million to \$750 million. The amended facility matures in December 2026 and is comprised of a \$600 million revolving credit facility and a \$150 million delayed draw term loan. The revolving credit facility includes a \$300 million sub-limit for letters of credit. Under certain circumstances and subject to certain conditions, we can increase the revolving credit facility by \$250 million plus such amount as would not cause our consolidated secured net leverage ratio to exceed a specified level. Borrowings under the amended facility bore interest at SOFR plus a margin of 1.25% as of March 31, 2023 (which margin can range from 1.0% to 1.75% based on our consolidated net leverage ratio as defined in the credit facility). Letters of credit reduce the amount available to borrow under the credit facility by their face value amount. The unused portion of the facility bore a commitment fee of 0.15% as of March 31, 2023 (which fee can range from 0.10% to 0.25% based on our consolidated net leverage ratio as defined in the credit facility). Our borrowings under the credit agreement are guaranteed by certain of our U.S.-based subsidiaries and are secured by substantially all of our assets and substantially all the assets of certain of our subsidiaries. The credit facility contains various representations and warranties, affirmative, negative and financial covenants and events of default. As of March 31, 2023, there were \$215 million of borrowings outstanding under the revolving credit facility, \$61.3 million outstanding under the letters of credit sub-facility, and \$145 million outstanding under the term loan. As of March 31, 2023, the amount available to borrow under the revolving credit facility was \$323.7 million. Loan amounts under the revolving credit facility may be borrowed, repaid and re-borrowed during the term. The principal amount of each loan is due and payable in full on the maturity date. We have the right to repay each loan in whole or in part from time to time without penalty. It is our practice to routinely borrow and repay several times per year under the revolving facility and therefore, borrowings under the revolving credit facility are included in current liabilities. As of March 31, 2023, we were in compliance with all financial covenants under this credit facility. In September 2022, we entered into an interest rate swap in order to mitigate the interest rate risk on a portion of the interest payments expected to be made on the borrowings outstanding under the revolving credit facility and term loan. Refer to Note 1 for details.

1.25% Convertible Senior Notes (“Notes”) Due 2022

In February 2017, we issued \$287.5 million of the Notes in a private offering. The Notes were governed by an indenture dated February 22, 2017. The maturity date for the payment of principal was September 1, 2022. The Notes bore interest at the rate of 1.25% and were payable in cash semiannually in arrears on each March 1 and September 1. On September 1, 2022, we repurchased for cash and cancelled the then-remaining \$242.3 million balance of the Notes utilizing proceeds from the senior secured credit facility.

Issuance costs of \$7.7 million were allocated between debt (\$6.5 million) and equity (\$1.2 million) components with the portion allocated to the debt presented as an offset against long-term debt in the consolidated balance sheet and was being amortized as interest expense over the life of the Notes using the effective interest method. Total interest expense recognized for the three and nine months ended March 31, 2022 related to the Notes was \$1.2 and \$3.7 million, respectively, which consisted of \$0.9 million and \$2.7 million of contractual interest expense and \$0.3 million and \$1.0 million of amortization of debt issuance costs. Total interest expense recognized for the three and nine months ended March 31, 2023 related to the Notes was nil and \$0.7 million, respectively, which consisted of \$0.5 million of contractual interest expense and \$0.2 million of amortization of debt issuance costs.

Other Borrowings

Several of our foreign subsidiaries maintain bank lines of credit, denominated in local currencies and U.S. dollars, primarily for the issuance of letters of credit. As of March 31, 2023, \$50.1 million was outstanding under these letter-of-credit facilities. As of March 31, 2023, the total amount available under these credit facilities was \$27.7 million.

Long-term debt consisted of the following (in thousands):

	June 30, 2022	March 31, 2023
1.25% convertible notes due September 1, 2022:		
Principal amount	\$ 242,302	\$ —
Unamortized debt issuance costs	(196)	—
	242,106	—
Term loan	50,000	145,000
Other long-term debt	1,137	1,270
	293,243	146,270
Less current portion of long-term debt	(244,575)	(8,080)
Long-term portion of debt	<u>\$ 48,668</u>	<u>\$ 138,190</u>

9. Stockholders' Equity

Stock-based Compensation

As of March 31, 2023, we maintained the Amended and Restated 2012 Incentive Award Plan (the "OSI Plan") as a stock-based employee compensation plan.

We recorded stock-based compensation expense in the consolidated statements of operations as follows (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2023	2022	2023
Cost of goods sold	\$ 205	\$ 229	\$ 616	\$ 686
Selling, general and administrative	6,567	6,757	19,977	20,467
Research and development	126	126	393	375
Stock-based compensation expense	<u>\$ 6,898</u>	<u>\$ 7,112</u>	<u>\$ 20,986</u>	<u>\$ 21,528</u>

As of March 31, 2023, total unrecognized compensation costs related to share-based compensation grants under the OSI Plan were estimated at \$0.8 million for stock options and \$20.6 million for restricted stock units ("RSUs"). We expect to recognize these costs over a weighted average period of 2.2 years with respect to the stock options and 1.8 years with respect to the RSUs.

The following summarizes stock option activity during the nine months ended March 31, 2023:

	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2022	110,645	82.43		
Granted	23,351	87.90		
Exercised	(19,614)	67.83		
Expired or forfeited	(1,568)	81.60		
Outstanding at March 31, 2023	<u>112,814</u>	86.11	<u>6.8 years</u>	<u>\$ 1,833</u>
Exercisable at March 31, 2023	<u>67,689</u>		<u>5.4 years</u>	<u>\$ 1,274</u>

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The following summarizes RSU award activity during the nine months ended March 31, 2023:

	Shares	Weighted-Average Fair Value
Nonvested at June 30, 2022	427,447	\$ 90.17
Granted	356,694	89.11
Vested	(312,038)	96.42
Forfeited	(13,814)	88.82
Nonvested at March 31, 2023	<u>458,289</u>	<u>\$ 85.13</u>

As of March 31, 2023, there were approximately 0.8 million shares available for grant under the OSI Plan. Under the terms of the OSI Plan, RSUs and restricted stock granted from the pool of shares available for grant reduce the pool by 1.87 shares for each award granted. RSUs and restricted stock forfeited and returned to the pool of shares available for grant increase the pool by 1.87 shares for each award forfeited.

We granted 96,620 and 110,811 performance-based RSUs during the nine months ended March 31, 2022 and 2023, respectively. These performance-based RSU awards are contingent on the achievement of certain performance metrics. The payout related to these awards can range from zero to 376% of the original number of shares or units awarded. Compensation cost associated with these performance-based RSUs are recognized based on the estimated number of shares that we ultimately expect will vest. If the estimated number of shares to vest is revised in the future, then stock-based compensation expense will be adjusted accordingly.

Employee Stock Purchase Plan

We have an employee stock purchase plan under which 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. During the nine months ended March 31, 2022 and 2023, employees purchased 60,605 and 59,255 shares, respectively. As of March 31, 2023, there were 417,972 shares of our common stock available for issuance under the plan.

Stock Repurchase Program

In September 2022, our Board of Directors increased the stock repurchase authorization to a total of 2 million shares. This program does not expire unless our Board of Directors acts to terminate the program. The timing and actual numbers of shares purchased depend on a variety of factors, including stock price, general business and market conditions and other investment opportunities. Repurchases may be made from time to time under the program through open-market purchases or privately negotiated transactions at our discretion. Upon repurchase, the shares are restored to the status of authorized but unissued shares, and we record them in our consolidated financial statements as a reduction in the number of shares of common stock issued and outstanding, with the excess purchase price over par value recorded as a reduction of additional paid-in capital. If additional paid-in capital is reduced to zero, we record the remainder of the excess purchase price over par value as a reduction of retained earnings.

During the nine months ended March 31, 2022 and 2023, we repurchased 1,117,258 and 400,230 shares of our common stock, respectively. As of March 31, 2023, there were 1,721,870 shares remaining available for repurchase under the authorized repurchase program.

Dividends

We have not paid any cash dividends since the consummation of our initial public offering in 1997 and we do not currently intend to pay any cash dividends in the foreseeable future. Our Board of Directors will determine the payment of future cash dividends, if any. Certain of our current bank credit facilities restrict the payment of cash dividends and future borrowings may contain similar restrictions.

10. Commitments and Contingencies

Acquisition-Related Contingent Obligations

Under the terms and conditions of the purchase agreements associated with certain acquisitions, we may be obligated to make additional payments based on the achievement of certain sales or profitability milestones through the acquired operations. For agreements that

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contain contingent consideration obligations that are capped, the remaining maximum amount of such potential future payments is \$54.4 million as of March 31, 2023.

We account for such contingent payments for acquisitions which occurred through the end of fiscal year 2009 as additions to the purchase price of the acquired business. We made contingent payments relating to such acquisitions of \$0.3 million and \$1.7 million, respectively, during the three and nine months ended March 31, 2022 and \$1.2 million and \$3.7 million, respectively, during the three and nine months ended March 31, 2023.

For acquisitions completed after fiscal 2009, pursuant to ASC 805, the estimated fair value of these obligations is recorded as a liability at the time of the acquisition with subsequent revisions recorded in Selling, general and administrative expense in the consolidated financial statements. The estimated fair value measurements of contingent earnout obligations are primarily based on unobservable inputs, which may include projected revenues, gross margins, operating income and the estimated probability of achieving the earnouts.

These projections and probabilities are used to estimate future contingent earnout payments, which are discounted back to present value to compute contingent earnout liabilities. The following table provides a roll-forward from June 30, 2022 to March 31, 2023 of the contingent consideration liability, which is included in other accrued expenses and current liabilities and other long-term liabilities in our consolidated balance sheets (in thousands):

Beginning fair value, June 30, 2022	\$ 28,212
Addition of contingent earnout obligations	3,267
Foreign currency translation adjustment	(25)
Changes in fair value for contingent earnout obligations	(11,164)
Payments on contingent earnout obligations	(230)
Ending fair value, March 31, 2023	<u>\$ 20,060</u>

Environmental Contingencies

We are subject to various environmental laws. We conduct environmental investigations at our manufacturing facilities in North America, Asia-Pacific, and Europe, and, to the extent practicable, on all new properties to identify, as of the date of such investigation, potential areas of environmental concern related to past and present activities or from nearby operations. In certain cases, we have conducted further environmental assessments consisting of soil and groundwater testing and other investigations deemed appropriate by independent environmental consultants.

We have not accrued for loss contingencies relating to environmental matters because we believe that, although unfavorable outcomes are possible, they are not considered by our management to be probable and reasonably estimable. If one or more of these environmental matters are resolved in a manner adverse to us, the impact on our business, financial condition, results of operations and cash flow could be material.

Indemnifications and Certain Employment-Related Contingencies

In the normal course of business, we have agreed to indemnify certain parties with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from breaches of representations, warranties or covenants, or intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our directors and certain of our officers. It is not possible to determine the maximum potential liability amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. We have not recorded any liability for costs related to contingent indemnification obligations as of March 31, 2023.

On December 31, 2017, we and Deepak Chopra, our Chief Executive Officer, entered into an amendment to Mr. Chopra's employment agreement that, among other things, provides for a \$13.5 million bonus payment to Mr. Chopra on or within 45 days of January 1, 2024 contingent upon Mr. Chopra's continued employment with us through that date, subject to accelerated payout terms in the event of Mr. Chopra's death or disability. The bonus is included in accrued payroll and related expenses at March 31, 2023 and other long-term liabilities at June 30, 2022.

Product Warranties

We offer our customers warranties on many of the products that we sell. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Concurrent with the sale of products, we record a provision for estimated warranty expenses with a corresponding increase in cost of goods sold. We periodically adjust this provision based on historical experience and anticipated expenses. We charge actual expenses of repairs under warranty, including parts and labor, to this provision when incurred. The current obligation for warranty provision is included in other accrued expenses and current liabilities and the noncurrent portion is included in other long-term liabilities in the consolidated balance sheets.

The following table presents changes in warranty provisions (in thousands):

	Nine Months Ended March 31,	
	2022	2023
Balance at beginning of period	\$ 19,736	\$ 13,347
Additions	2,292	2,622
Reductions for warranty repair costs and adjustments	(7,191)	(5,831)
Balance at end of period	\$ 14,837	\$ 10,138

Legal Proceedings

We are involved in various claims and legal proceedings arising in the ordinary course of business. In our opinion after consultation with legal counsel, the ultimate disposition of such proceedings is not likely to have a material adverse effect on our business, financial condition, results of operations or cash flows. We have not accrued for loss contingencies relating to any such matters because we believe that, although unfavorable outcomes in the proceedings are possible, they are not considered by management to be probable and reasonably estimable. If one or more of these matters are resolved in a manner adverse to our company, the impact on our business, financial condition, results of operations and cash flows could be material.

11. Income Taxes

The determination of the annual effective tax rate is based upon a number of significant estimates and judgments, including the estimated annual pretax income in each tax jurisdiction in which we operate and the development of tax planning strategies during the year. In addition, as a global commercial enterprise, our tax expense can be impacted by changes in tax rates or laws, the finalization of tax audits and reviews and other factors that cannot be predicted with certainty. As such, there can be significant volatility in interim tax provisions.

The effective tax rates for the three months ended March 31, 2022 and 2023 were 20.1% and 23.8%, respectively. During the three-month period ended March 31, 2023, we recognized a net discrete tax expense of \$0.2 million related to equity-based compensation under ASU 2016-09 and changes in prior year tax estimates. During the three-month period ended March 31, 2022, we recognized a net discrete tax benefit of \$0.2 million related to equity-based compensation under ASU 2016-09 and changes in prior year tax estimates.

The effective tax rate for the nine months ended March 31, 2022 and 2023 was 20.8% and 22.6%, respectively. During the nine months ended March 31, 2023, we recognized a net discrete tax benefit of \$0.6 million related to equity-based compensation under ASU 2016-09 and changes in prior year tax estimates. During the nine months ended March 31, 2022, we recognized a net discrete tax benefit of \$2.0 million related to equity-based compensation under ASU 2016-09.

12. Segment Information

We have determined that we operate in three identifiable industry segments: (a) security and inspection systems (Security division), (b) medical monitoring systems (Healthcare division) and (c) optoelectronic devices and manufacturing (Optoelectronics and Manufacturing division). We also have a corporate segment (Corporate) that includes executive compensation and certain other general and administrative expenses, expenses related to stock issuances and legal, audit and other professional service fees not allocated to industry segments. Both the Security and Healthcare divisions comprise primarily end-product businesses, whereas the Optoelectronics and Manufacturing division primarily supplies components and subsystems to external OEM customers, as well as to the Security and Healthcare divisions. Sales between divisions are at transfer prices that approximate market values. All other accounting policies for the segments are the same as described in Note 1, Basis of Presentation.

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The following tables present our results of operations and identifiable assets by industry segment (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2022	2023	2022	2023
Revenues (1)—by Segment:				
Security division	\$ 158,644	\$ 178,752	\$ 454,079	\$ 491,188
Healthcare division	52,178	43,911	155,191	130,994
Optoelectronics and Manufacturing division, including intersegment revenues	92,122	93,888	275,917	286,513
Intersegment revenues elimination	(12,467)	(13,662)	(38,772)	(42,138)
Total	<u>\$ 290,477</u>	<u>\$ 302,889</u>	<u>\$ 846,415</u>	<u>\$ 866,557</u>
Income (loss) from operations —by Segment:				
Security division	\$ 20,559	\$ 29,496	\$ 60,323	\$ 66,014
Healthcare division	7,480	1,787	20,430	4,819
Optoelectronics and Manufacturing division	11,177	12,493	34,342	35,963
Corporate	(10,729)	(10,148)	(32,855)	(29,572)
Intersegment eliminations	(61)	709	(48)	904
Total	<u>\$ 28,426</u>	<u>\$ 34,337</u>	<u>\$ 82,192</u>	<u>\$ 78,128</u>
Assets (2)—by Segment:				
Security division			\$ 839,769	\$ 877,618
Healthcare division			231,423	244,825
Optoelectronics and Manufacturing division			301,483	310,851
Corporate			104,834	94,428
Eliminations (3)			(34,359)	(44,419)
Total			<u>\$ 1,443,150</u>	<u>\$ 1,483,303</u>

- (1) For the three-month period ended March 31, 2022 and the nine-month periods ended March 31, 2022 and 2023, no customer accounted for greater than 10% of total net revenues. For the three-month period ended March 31, 2023, one customer accounted for 13% of total net revenues.
- (2) As of June 30, 2022 and March 31, 2023, no customer accounted for greater than 10% of accounts receivable.
- (3) Eliminations in assets reflect the amount of inter-segment profits in inventory and inter-segment ROU assets under ASC 842 as of the balance sheet date. Such inter-segment profit will be realized when inventory is shipped to the external customers of the Security and Healthcare divisions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, "OSI", the "Company", "we", "us", "our" and similar terms refer to OSI Systems, Inc. together with our wholly-owned subsidiaries.

This management's discussion and analysis of financial condition as of March 31, 2023 and results of operations for the three and nine months ended March 31, 2023 should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 filed with the SEC.

Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements relate to our current expectations, beliefs, and projections concerning matters that are not historical facts. Words such as "project," "believe," "anticipate," "plan," "expect," "intend," "may," "should," "will," "would," and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements include, without limitation, information provided regarding impact of the COVID-19 pandemic and the Russia-Ukraine conflict. Forward-looking statements are not guarantees of future performance and involve uncertainties, risks, assumptions and contingencies, many of which are outside our control. Assumptions upon which our forward-looking statements are based could prove to be inaccurate, and actual results may differ materially from those expressed in or implied by such forward-looking statements. Important factors that could cause our actual results to differ materially from our expectations are disclosed in this report, our Annual Report on Form 10-K for the fiscal year ended June 30, 2022 (including Part I, Item 1, "Business," Part I, Item 1A, "Risk Factors" and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations") and other documents filed by us from time to time with the SEC. Such factors, of course, do not include all factors that might affect our business and financial condition. We could be exposed to a variety of negative consequences as a result of delays related to the award of domestic and international contracts; failure to secure the renewal of key customer contracts; delays in customer programs; delays in revenue recognition related to the timing of customer acceptance; changes in domestic and foreign government spending, budgetary, procurement and trade policies adverse to our businesses; the impact of the Russia-Ukraine conflict, including the potential for broad economic disruption; global economic uncertainty; impacts on our business related to or resulting from the COVID-19 pandemic such as material delays and cancellations of orders or deliveries thereon, supply chain disruptions, plant closures, or other adverse impacts on our ability to execute business plans; unfavorable currency exchange rate fluctuations; effect of changes in tax legislation; market acceptance of our new and existing technologies, products and services; our ability to win new business and convert any orders received to sales within the same fiscal year; contract and regulatory compliance matters, and actions, which if brought, could result in judgments, settlements, fines, injunctions, debarment or penalties; and other risks and uncertainties, including but not limited to those detailed herein and from time to time in our other SEC filings, which could have a material and adverse impact on our business, financial condition and results of operation. All forward-looking statements contained in this report are qualified in their entirety by this Section. Moreover, we operate in a very competitive and rapidly changing environment and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties, and assumptions, the future events and trends discussed in this Quarterly Report on Form 10-Q may not occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements. Investors should not place undue reliance on forward-looking statements as a prediction of actual results. We undertake no obligation other than as may be required under securities laws to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. We sell our products and provide related services in diversified markets, including homeland security, healthcare, defense and aerospace. We have three operating divisions: (a) Security, providing security and inspection systems and turnkey security screening solutions; (b) Healthcare, providing patient monitoring, cardiology and remote monitoring, and connected care systems and associated accessories; and (c) Optoelectronics and Manufacturing, providing specialized electronic components for our Security and Healthcare divisions, as well as to third parties for applications in the defense and aerospace markets, among others.

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Security Division. Through our Security division, we provide security screening products and services globally, as well as turnkey security screening solutions. These products and services are used to inspect baggage, parcels, cargo, people, vehicles and other objects for weapons, explosives, drugs, radioactive and nuclear materials and other contraband. Revenues from our Security division accounted for 54% and 57% of our total consolidated revenues for the nine months ended March 31, 2022 and 2023, respectively.

Healthcare Division. Through our Healthcare division, we design, manufacture, market and service patient monitoring, cardiology and remote monitoring, and connected care systems globally for sale primarily to hospitals and medical centers. Our products monitor patients in critical, emergency and perioperative care areas of the hospital and provide information, through wired and wireless networks, to physicians and nurses who may be at the patient's bedside, in another area of the hospital or even outside the hospital. Revenues from our Healthcare division accounted for 18% and 15% of our total consolidated revenues for the nine months ended March 31, 2022 and 2023, respectively.

Optoelectronics and Manufacturing Division. Through our Optoelectronics and Manufacturing division, we design, manufacture and market optoelectronic devices and flex circuits and provide electronics manufacturing services globally for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, telecommunications, office automation, computer peripherals, industrial automation and consumer products. We provide our optoelectronic devices and electronics manufacturing services to OEM customers and to our own Security and Healthcare divisions. Revenues from external customers in our Optoelectronics and Manufacturing division accounted for 28% of our total consolidated revenues for each of the nine months ended March 31, 2022 and 2023, respectively.

Trends and Uncertainties

The following is a discussion of certain trends and uncertainties that we believe have influenced, and may continue to influence, our results of operations.

Coronavirus Pandemic. The coronavirus disease 2019 ("COVID-19") pandemic has dramatically impacted the global health and economic environment, with millions of confirmed cases, business slowdowns and shutdowns, and market volatility. The COVID-19 pandemic has caused, and may continue to cause, significant economic disruptions and has impacted, and may continue to impact, our operations and the operations of our suppliers, logistics providers and customers as a result of supply chain disruptions and delays, as well as labor challenges. During the early stages of the pandemic, our Healthcare division experienced increased demand for certain products as a result of COVID-19. However in our Security division, throughout and primarily as a result of the pandemic, receipt of certain orders was delayed, most notably with respect to our aviation and cargo products, and our revenues were adversely impacted. If customers of our Security division continue to be impacted by the pandemic, we could receive further requests to delay deliveries of equipment and modify service arrangements or the scheduling of factory or site acceptance tests, which could further impact timing of revenue recognition. While we have been able to broadly maintain our operations, we experienced some disruption in our supply chain in certain markets due primarily to materials shortages, longer lead times on deliveries and transportation constraints. If these business interruptions resulting from COVID-19 were to be prolonged or expanded in scope, our business, financial condition, results of operations and cash flows would be materially and adversely impacted. We intend to continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in our best interests and the best interests of our employees, suppliers and customers. The ultimate impact of COVID-19 on our operations and financial performance in future periods remains uncertain and will depend on future pandemic-related developments, including the duration of the pandemic, potential subsequent waves of COVID-19 infection or potential new variants, the effectiveness and adoption of COVID-19 vaccines and therapeutics, impacts on suppliers and related government actions to prevent and manage disease spread such as the implementation of any federal, state, local or foreign vaccine mandates. The long-term impacts of COVID-19 on government budgets and other funding priorities, including international priorities, that impact demand for our products and services are also difficult to predict, but could negatively affect our future results and performance.

Global Economic Considerations. Our products and services are sold in numerous countries worldwide, with a large percentage of our sales generated outside the United States. Therefore, we are exposed to and impacted by global macroeconomic factors, U.S. and foreign government policies and foreign exchange fluctuations. There is uncertainty surrounding macroeconomic factors in the U.S. and globally characterized by the supply chain environment, inflationary pressure, rising interest rates, and labor shortages. In addition to the COVID-19 pandemic, these other global macroeconomic factors, coupled with the U.S. political climate and political unrest internationally, have created uncertainty and impacted demand for certain of our products and services. Also, the continued conflict between Russia and Ukraine and the sanctions imposed in response to this conflict have increased global economic and political uncertainty. While the impact of these factors remains uncertain, we will continue to evaluate the extent to which these factors will impact our business,

financial condition or results of operations. We do not know how long this uncertainty will continue. These factors could have a material negative effect on our business, results of operations and financial condition.

Global Trade. In addition to the COVID-19 pandemic, the current domestic and international political environment, including in relation to recent and further potential changes by the U.S. and other countries in policies on global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy and global trade. This uncertainty is exacerbated by sanctions imposed by the U.S. government against certain businesses and individuals in select countries. Continued or increased uncertainty regarding global trade due to these or other factors may require us to modify our current business practices and could have a material adverse effect on our business, results of operations and financial condition.

Healthcare Considerations. As described above, our Healthcare division experienced some increased demand for its patient monitoring products as a result of the COVID-19 pandemic during the earlier stages of the pandemic. Increased healthcare capital purchases made in prior periods may result in fewer capital purchases in subsequent periods.

European Union Threat Detection Standards. The EU has implemented regulations for all airports within the EU that use explosive detection systems to have hold baggage screening systems that are compliant with the European Civil Aviation Conference (ECAC) Standard 3. The deadline for compliance with this mandate was initially set for September 2020. The EU revised the regulations, and the date by which airports using explosive detection systems for hold baggage screening must meet Standard 3 has been changed to March 2024, with certain larger airports required to meet earlier installation dates. Our Security division's real time tomography (RTT) product has passed the ECAC explosive detection system Standard 3 threat detection requirement.

Government Policies. Our results of operations and cash flows could be materially affected by changes in U.S. or foreign government legislative, regulatory or enforcement policies.

Changes in Costs and Supply Chain Disruptions. Our costs are subject to fluctuations, particularly due to changes in raw material, component, and logistics costs. Our manufacturing and supply chain operations, including freight and shipping activities, have been and may continue to be impacted by increased vendor and labor costs as well as current global supply chain challenges. Specifically, we are impacted by the global shortage of electronic components and other materials needed for production and freight availability. We expect continued disruptions in obtaining material and freight availability as the world economies react to and recover from supply chain shortages. If we are unable to mitigate the impact of increased costs through pricing or other actions, there could be a negative impact on our business, results of operations, and financial condition.

Russia's Invasion of Ukraine. The invasion of Ukraine by Russia and the sanctions imposed in response to this conflict have increased global economic and political uncertainty. This has the potential to indirectly disrupt our supply chain and access to certain resources. While we have not experienced significant adverse impacts to date and will continue to monitor for any impacts and seek to mitigate disruption that may arise, we have certain research and development activities within Ukraine for our Healthcare division which have been somewhat impacted. The conflict also has increased the threat of malicious cyber activity from nation states and other actors.

Currency Exchange Rates. On a year-over-year basis, currency exchange rates negatively impacted reported sales by approximately 1.5% for the nine months ended March 31, 2023 compared to the nine months ended March 31, 2022, primarily due to the strengthening of the U.S. dollar against other foreign currencies in 2022. Any further strengthening of the U.S. dollar against foreign currencies would adversely impact our sales for the remainder of the year, and any weakening of the U.S. dollar against foreign currencies would positively impact our sales for the remainder of the year.

Results of Operations for the Three Months Ended March 31, 2022 (Q3 Fiscal 2022) Compared to the Three Months Ended March 31, 2023 (Q3 Fiscal 2023) (amounts in millions)

Net Revenues

The table below and the discussion that follows are based upon the way in which we analyze our business. See Note 12 to the condensed consolidated financial statements for additional information about our business segments.

	Q3 Fiscal 2022	% of Net Revenues	Q3 Fiscal 2023	% of Net Revenues	\$ Change	% Change
Security	\$ 158.6	54 %	\$ 178.8	59 %	\$ 20.2	12.7 %
Healthcare	52.2	18	43.9	15	(8.3)	(15.9)
Optoelectronics and Manufacturing	79.7	28	80.2	26	0.5	0.6
Total net revenues	<u>\$ 290.5</u>	<u>100 %</u>	<u>\$ 302.9</u>	<u>100 %</u>	<u>\$ 12.4</u>	<u>4.3 %</u>

Revenues for the Security division during the three months ended March 31, 2023 increased year-over-year due to increases in product and service revenues of approximately \$10.7 million and \$9.4 million, respectively. The increase in both product and service revenue was primarily driven by increased sales of cargo and vehicle inspection systems.

Revenues for the Healthcare division during the three months ended March 31, 2023 decreased year-over-year due to a reduction in patient monitoring sales of \$8.4 million and a decrease in cardiology sales of \$1.2 million, which was partially offset by an increase in service revenue of \$1.3 million.

Revenues for the Optoelectronics and Manufacturing division during the three months ended March 31, 2023 were similar to revenues in the same prior-year period.

Gross Profit

	Q3 Fiscal 2022	% of Net Revenues	Q3 Fiscal 2023	% of Net Revenues
Gross profit	<u>\$ 102.9</u>	<u>35.4 %</u>	<u>\$ 103.8</u>	<u>34.3 %</u>

Gross profit is impacted by sales volume, productivity, and changes in overall manufacturing-related costs, such as raw materials and component costs, warranty expense, provision for inventory, freight, and logistics. Our cost of goods sold increased year-over-year primarily as a result of the increase in revenues and higher raw material costs. Gross profit as a percentage of net revenues during the quarter ended March 31, 2023 decreased on a year-over-year basis due to a reduction in the Security division gross margins due to a decrease in margin from product sales driven by a less favorable product mix and increased component costs and a reduction in sales in the Healthcare division, which carries the highest gross margin of our three divisions.

Operating Expenses

	Q3 Fiscal 2022	% of Net Revenues	Q3 Fiscal 2023	% of Net Revenues	\$ Change	% Change
Selling, general and administrative	\$ 57.8	19.9 %	\$ 53.7	17.7 %	\$ (4.1)	(7.1)%
Research and development	15.1	5.2	14.8	4.9	(0.3)	(2.0)
Impairment, restructuring and other charges, net	1.5	0.5	0.9	0.3	(0.6)	(40.0)
Total operating expenses	<u>\$ 74.4</u>	<u>25.6 %</u>	<u>\$ 69.4</u>	<u>22.9 %</u>	<u>\$ (5.0)</u>	<u>(6.7)%</u>

Selling, general and administrative. Our significant selling, general and administrative (SG&A) expenses include employee compensation, sales commissions, travel, professional services, marketing expenses, and depreciation and amortization expense. SG&A expense for the three months ended March 31, 2023 was \$4.1 million lower than such expenses in the same prior-year period primarily due to bad debt recoveries in the third quarter of fiscal 2023 compared to a provision for bad debts in the comparable quarter of the prior year, a reduction in marketing expense, a change in fair value of certain liabilities, and more favorable foreign exchange rates, partially offset by increased compensation and travel expenses.

Research and development. Research and development (R&D) expenses include research related to new product development and product enhancements. R&D expense during the three months ended March 31, 2023 was relatively comparable to the prior year comparable period.

Impairment, restructuring and other charges. Impairment, restructuring and other charges generally consist of charges relating to reductions in our workforce, facilities consolidation, impairment of assets, costs related to acquisition activity, legal charges and other non-recurring charges. During the three months ended March 31, 2023, impairment, restructuring and other charges primarily consisted of \$0.5 million for employee terminations, \$0.3 million in legal charges primarily related to government investigations and \$0.1 million in acquisition-related costs and facility closure costs. During the three months ended March 31, 2022, impairment, restructuring and other charges primarily consisted of \$0.8 million for legal charges, \$0.4 million in charges for employee terminations, and \$0.3 million in acquisition related costs.

Interest and other expense, net. For the three months ended March 31, 2023, interest and other expense, net was \$5.7 million as compared to \$2.3 million in the same prior-year period. This increase was driven by higher average interest rates and higher average levels of borrowing under our credit facility during the three months ended March 31, 2023 in comparison with the levels of borrowing during the same period in the prior year. The 1.25% convertible notes that were previously outstanding during the three month period ended March 31, 2022 were retired in September 2022 using borrowings from our credit facility which carries a higher interest rate.

Income taxes. The effective tax rate for a particular period varies depending on a number of factors, including (i) the mix of income earned in various tax jurisdictions, each of which applies a unique range of income tax rates and income tax credits, (ii) changes in previously established valuation allowances for deferred tax assets (changes are based upon our current analysis of the likelihood that these deferred tax assets will be realized), (iii) the level of non-deductible expenses, (iv) certain tax elections, (v) tax holidays granted to certain of our international subsidiaries and (vi) discrete tax items. For the three months ended March 31, 2023, we recognized a provision for income taxes of \$6.8 million compared to \$10.8 million for the comparable prior-year period. The effective tax rates for the three months ended March 31, 2022 and 2023 were 20.1% and 23.8%, respectively. During the three months ended March 31, 2023, we recognized a net discrete tax expense of \$0.2 million related to equity-based compensation under ASU 2016-09 and changes in prior year estimates. During the three-month periods ended March 31, 2022, we recognized a net discrete tax benefit of \$0.2 million related to equity-based compensation under ASU 2016-09 and changes in prior year tax estimates.

Results of Operations for the Nine Months Ended March 31, 2022 (YTD Q3 Fiscal 2022) Compared to the Nine Months Ended March 31, 2023 (YTD Q3 Fiscal 2023) (amounts in millions)

Net Revenues

The table below and the discussion that follows are based upon the way in which we analyze our business. See Note 12 to the condensed consolidated financial statements for additional information about our business segments.

	<u>YTD Q3</u> <u>Fiscal 2022</u>	<u>% of</u> <u>Net Revenues</u>	<u>YTD Q3</u> <u>Fiscal 2023</u>	<u>% of</u> <u>Net Revenues</u>	<u>\$ Change</u>	<u>% Change</u>
Security	\$ 454.1	53 %	\$ 491.2	57 %	\$ 37.1	8.2 %
Healthcare	155.2	19	131.0	15	(24.2)	(15.6)
Optoelectronics and Manufacturing	237.1	28	244.4	28	7.3	3.1
Total net revenues	<u>\$ 846.4</u>	<u>100 %</u>	<u>\$ 866.6</u>	<u>100 %</u>	<u>\$ 20.2</u>	<u>2.4 %</u>

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Revenues for the Security division during the nine months ended March 31, 2023 increased year-over-year due to an increase in product and service revenues of approximately \$21.8 million and \$15.3 million, respectively. The increase in both product and service revenue was primarily driven by increased sales of cargo and vehicle inspection systems.

Revenues for the Healthcare division during the nine months ended March 31, 2023 decreased year-over-year due to a reduction in patient monitoring sales of \$22.3 million and a decrease in cardiology sales of \$3.2 million, partially offset by an increase in service revenues of \$1.3 million.

Revenues for the Optoelectronics and Manufacturing division during the nine months ended March 31, 2023 increased year-over year as a result of an increase in revenue in our optoelectronics business of approximately \$8.1 million, partially offset by a reduction in revenue in our contract manufacturing business of approximately \$0.8 million.

Gross Profit

	YTD Q3 Fiscal 2022	% of Net Revenues	YTD Q3 Fiscal 2023	% of Net Revenues
Gross profit	\$ 302.0	35.7 %	\$ 287.5	33.2 %

Our cost of goods sold increased year-over-year primarily as a result of the increase in revenues and higher raw material costs. Gross profit as a percentage of net revenues during the nine months ended March 31, 2023 decreased on a year-over-year basis due to (i) a reduction in the Security division gross margins due to a decrease in margin from product sales driven by a less favorable product mix and increased component costs, (ii) a reduction in sales in the Healthcare division, which carries the highest gross margin of our three divisions, and (iii) an increase in sales in the Optoelectronics and Manufacturing division, which carries the lowest gross margin of our three divisions.

Operating Expenses

	YTD Q3 Fiscal 2022	% of Net Revenues	YTD Q3 Fiscal 2023	% of Net Revenues	\$ Change	% Change
Selling, general and administrative	\$ 170.0	20.1 %	\$ 161.1	18.6 %	\$ (8.9)	(5.2)%
Research and development	45.0	5.3	43.9	5.1	(1.1)	(2.4)
Impairment, restructuring and other charges, net	4.8	0.6	4.4	0.5	(0.4)	(8.3)
Total operating expenses	\$ 219.8	26.0 %	\$ 209.4	24.2 %	\$ (10.4)	(4.7)%

Selling, general and administrative. SG&A expense for the nine months ended March 31, 2023 was \$8.9 million lower than such expenses in the same prior-year period primarily due primarily to a reduction in compensation, professional fees, a change in fair value of certain liabilities, favorable foreign exchange rates, and higher bad debt recoveries than in the prior period which were partially offset by increased travel expenses.

Research and development. R&D expense during the nine months ended March 31, 2023 decreased as compared to the same prior-year period primarily due to a decrease in outside services partially offset by increases in compensation and travel expenses in our Security and Healthcare divisions.

Impairment, restructuring and other charges. During the nine months ended March 31, 2023, impairment, restructuring and other charges primarily consisted of \$3.2 million in legal charges primarily related to class action litigation and government investigations, \$1.0 million for employee terminations, and \$0.2 million in acquisition-related costs and facility closure costs. During the nine months ended March 31, 2022, impairment, restructuring and other charges consisted of \$3.5 million for legal charges, \$1.0 million in charges for employee terminations, and \$0.3 million in acquisition related costs.

Interest and other expense, net. For the nine months ended March 31, 2023, interest and other expense, net was \$14.3 million as compared to \$6.5 million in the same prior-year period. This increase was driven by higher average interest rates and higher average levels of borrowing under our credit facility during the nine months ended March 31, 2023 in comparison with the levels of borrowing during the same period in the prior year. The 1.25% convertible notes that were previously outstanding during the nine-month period ended March 31, 2022 were retired in September 2022 using borrowings from our credit facility which carries a higher interest rate.

Income taxes. For the nine months ended March 31, 2023, we recognized a provision for income taxes of \$14.4 million compared to \$21.4 million for the comparable prior-year period. The effective tax rates for the nine months ended March 31, 2022 and 2023 was 20.8% and 22.6%, respectively. During the nine months ended March 31, 2023, we recognized discrete tax benefit of \$0.6 million related to equity-based compensation under ASU 2016-09 and changes in prior year estimates. During the nine months ended March 31, 2022, we recognized a net discrete tax benefit of \$2.0 million related to equity-based compensation under ASU 2016-09.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, cash generated from operations and our credit facilities. Cash and cash equivalents totaled \$65.6 million at March 31, 2023, an increase of \$1.4 million, or 2.2%, from \$64.2 million at June 30, 2022. We currently anticipate that our available funds, credit facilities and cash flow from operations will be sufficient to meet our operational cash needs for the next 12 months and the foreseeable future. In addition, we anticipate that cash generated from operations, without repatriating earnings from our non-U.S. subsidiaries, and our credit facilities will be sufficient to satisfy our obligations in the U.S.

We have a \$750 million credit facility that is comprised of a \$600 million revolving credit facility, which includes a \$300 million sub-facility for letters of credit, and a \$150 million term loan. As of March 31, 2023, there was \$215 million outstanding under our revolving credit facility, \$145 million outstanding under the term loan and \$61.3 million of outstanding letters of credit. As of March 31, 2023, the total amount available under these credit facilities was \$323.7 million.

Cash Provided by Operating Activities. Cash flows from operating activities can fluctuate significantly from period to period, as net income, adjusted for non-cash items, and working capital fluctuations impact cash flows. During the nine months ended March 31, 2023, we generated cash from operations of \$72.7 million compared to \$41.8 million in the same prior-year period. The increase was driven primarily by the positive impact of working capital changes.

Cash Used in Investing Activities. Net cash used in investing activities was \$30.4 million for the nine months ended March 31, 2023 as compared to \$6.6 million in the same prior-year period. Cash used to acquire businesses was \$4.6 million during the nine-month period ended March 31, 2023 compared to \$14.1 million in the prior year. Capital expenditures in the nine-month period ended March 31, 2023 were \$12.7 million compared to \$10.3 million in the same prior-year period. Expenditures for intangible and other assets were \$12.3 million in each of the nine-month periods ended March 31, 2023 and 2022. In fiscal year 2022, the sale of certain corporate owned real estate in a sale and leaseback transaction generated \$32.3 million in proceeds.

Cash Used in Financing Activities. Net cash used in financing activities was \$37.1 million during the nine months ended March 31, 2023 compared to \$30.9 million during the same prior-year period. The \$6.2 million increase in cash used in financing activities during the nine months ended March 31, 2023 as compared to the comparable prior year period was due primarily to a reduction in net borrowings of \$74.6 million, which was partially offset by a reduction in repurchases of common stock and taxes paid related to net settlement of equity awards of \$69.6 million.

Borrowings

See Note 8 to the condensed consolidated financial statements for a detailed discussion regarding our credit facility and our Notes.

Cash Held by Foreign Subsidiaries

Our cash and cash equivalents totaled \$65.6 million at March 31, 2023. Of this amount, approximately 81% was held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were held primarily by our subsidiaries in the United Kingdom, India, Singapore, Malaysia and Canada and, to a lesser extent, in Mexico, Indonesia, Albania and Australia. We intend to permanently reinvest certain earnings from foreign operations, and we currently do not anticipate that we will need this cash in foreign countries to fund our U.S. operations. In the event we change our intention regarding the reinvestment of those earnings and we repatriate cash to the U.S. from certain foreign operations, we would provide at the time for withholding taxes to the extent not previously withheld on such earnings.

Issuer Purchases of Equity Securities

The following table contains information about the shares of common stock we purchased during the quarter ended March 31, 2023:

	Total number of shares (or units) purchased	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs (1)
January 1 to January 31, 2023	—	\$ —	—	1,860,339
February 1 to February 28, 2023	58,845	\$ 94.43	58,845	1,801,494
March 1 to March 31, 2023	79,624	\$ 93.04	79,624	1,721,870
	<u>138,469</u>		<u>138,469</u>	

(1) In September 2022, when there were 1,131,301 shares remaining authorized to repurchase under the then-existing share repurchase program, the Board of Directors renewed the authorization and revised the maximum number of shares to 2,000,000 shares authorized under the stock repurchase program. Upon repurchase, the shares are restored to the status of authorized but unissued shares, and we record them as a reduction in the number of shares of common stock issued and outstanding in our consolidated financial statements.

Contractual Obligations

During the nine months ended March 31, 2023, there were no material changes outside the ordinary course of business to the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022. See Notes 1, 6, 8 and 10 to the condensed consolidated financial statements for additional information regarding our contractual obligations.

Recent Accounting Pronouncements

For information with respect to recent accounting pronouncements and the potential impact of those pronouncements on our condensed consolidated financial statements, see Note 1 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of our exposure to market risk, refer to our market risk disclosures set forth in Part II, Item 7A “Quantitative and Qualitative Disclosures About Market Risk” in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022. There have been no material changes in our exposure to market risk during the nine months ended March 31, 2023 from that described in the Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of March 31, 2023, the end of the period covered by this report, our management, including our Chief Executive Officer and our Chief Financial Officer, reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act). Based upon management’s review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective 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 by the SEC and is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the third quarter of fiscal 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our 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 management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud within the Company have been detected.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings, claims, and litigation arising in the ordinary course of our business or otherwise.

ITEM 1A. RISK FACTORS

The discussion of our business, financial condition and results of operations in this Quarterly Report on Form 10-Q for the period ended March 31, 2023 should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022, filed with the SEC on August 19, 2022, which describe various risks and uncertainties that could materially affect our business, financial condition and results of operations in the future. There have been no material changes to the risk factors included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2022.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

See Issuer Purchases of Equity Securities discussion under Part I, Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations, which is incorporated by reference into this Item 2.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

(a) None

(b) Not applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Deepak Chopra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2023

/s/ Deepak Chopra

Deepak Chopra
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan Edrick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 28, 2023

/s/ Alan Edrick
Alan Edrick
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deepak Chopra, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in the Report.

Date: April 28, 2023

/s/ Deepak Chopra
Deepak Chopra
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing. The signed original of this certification required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Edrick, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in the Report.

Date: April 28, 2023

/s/ Alan Edrick

Alan Edrick
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Report), irrespective of any general incorporation language contained in such filing. The signed original of this certification required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
