OSI SYSTEMS INC
Form 10-Q
January 28, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2018

OR

o 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.

(Exact name of registrant as specified in its charter)

Delaware	**33-0238801**
(State or other jurisdiction of incorporation or organization)	(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)

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

Indicate by check mark whether the registrant has submitted electronically 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 x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o Emerging growth company o

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. o

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

As of January 22, 2019, there were 18,071,408 shares of the registrant s common stock outstanding.

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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, 2018	December 31, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 84,814	$ 95,967
Accounts receivable, net	210,744	226,086
Inventories	313,552	315,200
Prepaid expenses and other current assets	41,587	43,949
Total current assets	650,697	681,202
Property and equipment, net	115,524	121,270
Goodwill	292,213	305,164
Intangible assets, net	142,001	140,202
Other assets	55,256	49,839
Total assets	$ 1,255,691	$ 1,297,677
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Bank lines of credit	$ 113,000	$ 149,000
Current portion of long-term debt	2,262	2,107
Accounts payable	106,892	98,339
Accrued payroll and related expenses	40,171	36,324
Advances from customers	55,761	69,410
Other accrued expenses and current liabilities	125,236	114,734
Total current liabilities	443,322	469,914
Long-term debt	248,980	253,184
Deferred income taxes	15,002	14,807
Other long-term liabilities	58,951	63,576
Total liabilities	766,255	801,481
Commitments and contingencies (Note 9)		
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, 18,032,374 shares at June 30, 2018 and 18,020,907 shares at December 31, 2018	169,475	151,926
Retained earnings	334,745	363,254
Accumulated other comprehensive loss	(14,784)	(18,984)
Total stockholders equity	489,436	496,196
Total liabilities and stockholders equity	$ 1,255,691	$ 1,297,677

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(amounts in thousands, except per share data)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2018	2017	2018
Net revenues:				
Products	$ 181,393	$ 225,402	$ 347,046	$ 407,882
Services	96,135	77,803	187,615	161,572
Total net revenues	277,528	303,205	534,661	569,454
Cost of goods sold:				
Products	122,464	150,131	236,644	275,502
Services	53,434	42,730	105,116	87,695
Total cost of goods sold	175,898	192,861	341,760	363,197
Gross profit	101,630	110,344	192,901	206,257
Operating expenses:				
Selling, general and administrative	60,098	67,097	115,745	128,804
Research and development	15,088	12,805	30,188	26,558
Impairment, restructuring and other charges	8,297	(1,265)	9,427	2,931
Total operating expenses	83,483	78,637	155,360	158,293
Income from operations	18,147	31,707	37,541	47,964
Interest expense and other expense, net	(5,282)	(5,620)	(9,531)	(10,952)
Income before income taxes	12,865	26,087	28,010	37,012
Provision for income taxes	(59,816)	(6,980)	(64,804)	(8,503)
Net income (loss)	$ (46,951)	$ 19,107	$ (36,794)	$ 28,509
Earnings (loss) per share:				
Basic	$ (2.47)	$ 1.06	$ (1.95)	$ 1.58
Diluted	$ (2.47)	$ 1.03	$ (1.95)	$ 1.53
Shares used in per share calculation:				
Basic	18,971	18,085	18,874	18,088
Diluted	18,971	18,624	18,874	18,679

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(amounts in thousands)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	**2018**	**2017**	**2018**
Net income (loss)	$ (46,951)	$ 19,107	$ (36,794)	$ 28,509
Other comprehensive income (loss):				
Foreign currency translation adjustment	326	(5,388)	1,906	(4,215)
Other	(93)	9	(65)	15
Other comprehensive income (loss)	233	(5,379)	1,841	(4,200)
Comprehensive income (loss)	$ (46,718)	$ 13,728	$ (34,953)	$ 24,309

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (UNAUDITED)

(amounts in thousands, except share data)

	Number of Shares	Common Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance June 30, 2017	18,689,568	$ 222,529	$ 363,872	$ (17,188)	$ 569,213
Exercise of stock options	80,101	1,757			1,757
Vesting of RSUs	372,248				
Shares issued under employee stock purchase program	37,488	1,961			1,961
Stock based compensation		5,487			5,487
Taxes paid related to net share settlement of equity awards	(220,571)	(18,803)			(18,803)
Net income			10,157		10,157
Other comprehensive income				1,608	1,608
Balance September 30, 2017	18,958,834	$ 212,931	$ 374,029	$ (15,580)	$ 571,380
Exercise of stock options	1,654	110			110
Vesting of RSUs	28,090				
Stock based compensation		6,253			6,253
Taxes paid related to net share settlement of equity awards	(10,547)	(951)			(951)
Net loss			(46,951)		(46,951)
Other comprehensive income				233	233
Balance December 31, 2017	18,978,031	$ 218,343	$ 327,078	$ (15,347)	$ 530,074
Balance June 30, 2018	18,032,374	$ 169,475	$ 334,745	$ (14,784)	$ 489,436
Exercise of stock options	9,034	269			269
Vesting of RSUs	340,082				
Shares issued under employee stock purchase program	39,293	2,020			2,020
Stock based compensation		5,463			5,463
Repurchase of common stock	(104,146)	(7,844)			(7,844)
Taxes paid related to net share settlement of equity awards	(163,514)	(12,623)			(12,623)
Net income			9,402		9,402
Other comprehensive income				1,179	1,179
Balance September 30, 2018	18,153,123	$ 156,760	$ 344,147	$ (13,605)	$ 487,302
Exercise of stock options	40,361	520			520
Vesting of RSUs	16,623				
Stock based compensation		8,163			8,163
Repurchase of common stock	(184,170)	(13,185)			(13,185)
Taxes paid related to net share settlement of equity awards	(5,030)	(332)			(332)
Net income			19,107		19,107
Other comprehensive loss				(5,379)	(5,379)
Balance December 31, 2018	18,020,907	$ 151,926	$ 363,254	$ (18,984)	$ 496,196

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(amounts in thousands)

	For the Six Months Ended December 31, 2017	For the Six Months Ended December 31, 2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (36,794)	$ 28,509
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	41,656	28,283
Stock based compensation expense	11,740	13,626
Deferred income taxes	50,696	(3,308)
Amortization of debt discount and issuance costs	4,262	4,469
Impairment charges	3,144	
Other	885	1,015
Changes in operating assets and liabilities net of business acquisitions:		
Accounts receivable	12,054	(13,986)
Inventories	(21,700)	(2,265)
Prepaid expenses and other assets	(6,273)	(5,863)
Accounts payable	(6,647)	(9,166)
Advances from customers	26,405	13,676
Accrued payroll and related expenses	12	(3,760)
Other	5,261	(10,386)
Net cash provided by operating activities	84,701	40,844
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(32,009)	(12,640)
Acquisition of businesses, net of cash acquired	(83,632)	(18,259)
Acquisition of intangible and other assets	(1,068)	(611)
Net cash used in investing activities	(116,709)	(31,510)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on bank lines of credit	92,000	36,000
Proceeds from long-term debt	295	817
Payments on long-term debt	(1,249)	(1,233)
Proceeds from exercise of stock options and employee stock purchase plan	3,828	2,809
Payments of contingent consideration	(804)	(1,328)
Repurchase of common stock		(21,029)
Taxes paid related to net share settlement of equity awards	(19,754)	(12,955)
Net cash provided by financing activities	74,316	3,081
Effect of exchange rate changes on cash	15	(1,262)
Net increase in cash and cash equivalents	42,323	11,153
Cash and cash equivalents beginning of period	169,650	84,814
Cash and cash equivalents end of period	$ 211,973	$ 95,967
Supplemental disclosure of cash flow information:		
Cash paid, net during the period for:		
Interest	$ 3,783	$ 6,318
Income taxes	$ 11,929	$ 20,711

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

Description of Business

OSI Systems, Inc., together with our subsidiaries, is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. We sell our products in diversified markets, including homeland security, healthcare, defense and aerospace.

We have three reporting segments: (i) Security, providing security inspection systems and related services, and turnkey security screening solutions; (ii) Healthcare, providing patient monitoring, diagnostic cardiology and related services and (iii) Optoelectronics and Manufacturing, providing specialized electronic components and electronic manufacturing services for our Security and Healthcare divisions as well as to external original equipment manufacturer (OEM) customers and end users for applications in the defense, aerospace, medical and industrial markets, among others.

Through our Security segment, we provide security screening products and related services globally. These products fall into the following categories: baggage and parcel inspection; cargo and vehicle inspection; hold (checked) baggage screening; people screening; radiation detection; and explosive and narcotics trace detection. In addition to these products, we also provide site design, installation, training and technical support services to our customers. We also provide turnkey security screening solutions, which can include the construction, staffing and long-term operation of security screening checkpoints for our customers.

Through our Healthcare segment, we design, manufacture, market and service patient monitoring and diagnostic cardiology systems and related supplies and accessories worldwide. These products are used by care providers in critical care, emergency and perioperative areas within hospitals as well as physicians offices, medical clinics and ambulatory surgery centers, among others.

Through our Optoelectronics and Manufacturing segment, we design, manufacture and market optoelectronic devices and flex circuits and provide electronics manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, X-ray security and inspection systems and medical imaging, chemistry analysis and diagnostics instruments, telecommunications, scanners and industrial automations, automotive diagnostic systems, internet of things (IoT) and consumer wearable products. This division provides products and services to OEM customers and end users as well as to our Security and Healthcare divisions.

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 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 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 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, 2018. The results of operations for the six months ended December 31, 2018 are not necessarily indicative of the operating results to be expected for the full 2019 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 and costs of sales during the reporting period. The most significant of these estimates and assumptions for our company relate to contract revenue, profit and loss recognition, 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. Actual amounts may differ from these estimates and could differ materially.

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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. In periods where a net loss is reported, basic and diluted net loss per share are the same since the effect of potential common shares is antidilutive and therefore excluded. The underlying equity component of the 1.25% convertible senior notes due 2022 (the Notes) discussed in Note 6 to the condensed consolidated financial statements will have no impact on diluted earnings per share until the average price of our common stock exceeds the conversion price because the principal amount of the Notes is intended to be settled in cash upon conversion.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2018	2017	2018
Net income (loss) available to common stockholders	$ (46,951)	$ 19,107	$ (36,794)	$ 28,509
Weighted average shares outstanding basic	18,971	18,085	18,874	18,088
Dilutive effect of equity awards		539		591
Weighted average shares outstanding diluted	18,971	18,624	18,874	18,679
Basic earnings (loss) per share	$ (2.47)	$ 1.06	$ (1.95)	$ 1.58
Diluted earnings (loss) per share	$ (2.47)	$ 1.03	$ (1.95)	$ 1.53
Weighted average shares excluded from diluted earnings (loss) per share due to their anti-dilutive effect (in thousands)	684	126	753	81

Cash Equivalents

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 $96.0 million at December 31, 2018. The majority of this amount was held by us and our subsidiaries in the United States, United Kingdom, Malaysia, India, and Mexico, and to a lesser extent in Canada, Singapore and Germany among others. We have cash holdings that exceed insured limits for financial institutions; however, we mitigate this risk by utilizing high credit quality financial institutions throughout the world.

Fair Value of Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, marketable securities, derivative instruments, accounts receivable, accounts payable and debt instruments. The carrying values of financial instruments, other than long term debt instruments, 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 available to us.

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. Level 1 category includes assets and liabilities at quoted prices in active markets for identical assets and liabilities. Level 2 category includes assets and liabilities from observable inputs other than quoted market prices. Level 3 category includes assets and liabilities for which valuation techniques are unobservable and significant to the fair value measurement. As of June 30, 2018 and December 31, 2018, there were no assets where Level 3 valuation techniques were used. Our contingent payment obligations related to acquisitions, which are further discussed in Note 9 to the condensed consolidated financial statements, are in the Level 3 category for valuation purposes.

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The fair values of the our financial assets and liabilities as of June 30, 2018 and December 31,2018 are categorized as follows (in thousands):

	June 30, 2018				December 31, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Insurance company contracts	$	$ 31,897	$	$ 31,897	$	$ 30,622	$	$ 30,622
Interest rate contract		18		18		9		9
Total assets	$	$ 31,915	$	$ 31,915	$	$ 30,631	$	$ 30,631
Liabilities contingent consideration	$	$	$ 15,713	$ 15,713	$	$	$ 19,997	$ 19,997

Derivative Instruments and Hedging Activity

Our use of derivatives consists of an interest rate swap agreement. The interest rate swap agreement was entered into to improve the predictability of cash flows from interest payments related to variable, LIBOR-based debt for the duration of the term loan described in Note 6. The interest rate swap matures in October 2019. The interest rate swap is considered an effective cash flow hedge and, as a result, the net gains or losses on such instrument were reported as a component of Other comprehensive income (loss) in the consolidated financial statements and are reclassified as net income when the hedge transaction settles.

Goodwill Impairment

Goodwill represents the excess purchase price over the estimated fair value of the assets acquired and liabilities assumed in a business combination. Goodwill is allocated to our segments based on the nature of the product line of the acquired business. The carrying value of goodwill is not amortized, but is annually tested for impairment during our second fiscal quarter and more frequently if there is an indicator of impairment. We assess qualitative factors of each of our three reporting units to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill. The assessments conducted as of December 31, 2018 indicated that it is not more likely than not that the fair values of two of our three reporting units are less than their carrying amounts, including goodwill. Thus, we have determined that there is no goodwill impairment for these two reporting units.

For the third reporting unit, the results of our assessment of qualitative factors were not conclusive so we proceeded with a quantitative assessment to determine if the carrying amount of this reporting unit exceeds its fair value. The fair value of the reporting unit was calculated using the income approach. Under the income approach, the fair value of the reporting unit was calculated by estimating the present value of associated future cash flows. The analysis indicated that the estimated fair value of the third reporting unit substantially exceeded the carry amount, plus goodwill, of the reporting unit. We applied a hypothetical 10 percent decrease to the fair value of the reporting unit, which at December 31, 2018, would not have indicated impairment. Therefore, we have determined that there is no goodwill impairment for this reporting unit.

Revenue Recognition

ASU 2014-09, Revenue from Contracts with Customers (Topic 606). In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09 and related amendments (ASC 606), which superseded all prior revenue recognition methods and industry-specific guidance. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or at a point in time). ASC 606 further requires that companies disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. On July 1, 2018, we adopted ASC 606 using the modified retrospective method, whereby the adoption does not impact any prior periods. We have identified contracts not yet completed as of July 1, 2018 and applied the new guidance on a prospective basis.

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Product Sales. We recognize revenue from sales of products upon shipment or delivery when control of the product transfers to the customer, depending on the terms of each sale, and when collection is probable. In the circumstance where terms of a product sale include subjective customer acceptance criteria, revenue is deferred until we have achieved the acceptance criteria unless the customer acceptance criteria are perfunctory or inconsequential. We generally offer customers payment terms of less than one year. In cases when payment terms extend beyond one year, we consider whether the contract has a significant financing component.

Service Revenue. Revenue from services includes after-market services, installation and implementation of products and turnkey security screening services. Generally, revenue from services is recognized over time as the services are performed. Revenues from out of warranty service maintenance contracts are recognized ratably over the respective terms of such contracts. Deferred revenue for such services arises from payments received from customers for services not yet performed.

Contract Revenue. Sales agreements with customers can be project specific, cover a period of time, and can be renewable periodically. The contracts may contain terms and conditions with respect to payment, delivery, installation, services, warranty and other rights. In certain instances, we consider an accepted customer order, governed by a master sales agreement, to be the contract with the customer when legal rights and obligations exist. Contracts with customers may include the sale of products and services, as discussed in the paragraphs above. In certain instances, contracts can contain multiple performance obligations as discussed in the paragraph below. According to the terms of a sale contract, we may receive consideration from a customer prior to transferring goods to the customer, and we record these prepayments as a contract liability. We also record deferred revenue, typically related to service contacts, when consideration is received before the services have been performed. We recognize customer deposits and deferred revenue as net sales after all revenue recognition criteria is met.

When determining revenue recognition for contracts, we use judgment based on our understanding of the obligations within each contract. We determine whether or not customer acceptance criteria are perfunctory or inconsequential. The determination of whether or not customer acceptance terms are perfunctory or inconsequential impacts the amount and timing of revenue recognition. Critical judgments also include estimates of warranty reserves, which are established based on historical experience and knowledge of the product under warranty.

Multiple Performance Obligations. Certain agreements with customers include the sale of capital equipment involving multiple elements that may include civil works to prepare a site for the installation of equipment, manufacture and delivery of equipment, installation and integration of equipment, training of customer personnel to operate the equipment and after-market service of the equipment. We generally separate multiple elements in a contract into separate performance obligations if those elements are distinct, both individually and in the context of the contract. If multiple promises comprise a series of distinct services which are substantially the same and have the same pattern of transfer, they are combined and accounted for as a single performance obligation.

In cases where obligations in a contract are distinct and thus require separation into multiple performance obligations, revenue recognition guidance requires that contract consideration be allocated to each distinct performance obligation based on its relative standalone selling price.

The value allocated to each performance obligation is then recognized as revenue when the revenue recognition criteria for each distinct promise or bundle of promises has been met.

The standalone selling price for each performance obligation is an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the good or service. When there is only one performance obligation associated with a contract, the entire sale value is attributed to that obligation. When a contract contains multiple performance obligations the transaction value is first allocated using the observable price, which is generally a list price net of applicable discount or the price used to sell in similar circumstances. In circumstances when a selling price is not directly observable, we will estimate the standalone selling price using information available to us including our market assessment and expected cost plus margin.

The timetable for fulfilment of each of the distinct performance obligations can range from completion in a short amount of time and entirely within a single reporting period to completion over several reporting periods. The timing of revenue recognition for each performance obligation may be dependent upon several milestones, including physical delivery of equipment, completion of factory acceptance test, completion of site acceptance test, installation and connectivity of equipment, certification of training of personnel and, in the case of after-market service deliverables, the passage of time (typically evenly over the post-warranty period of the service deliverable).

We often provide a guarantee to support our performance under multiple-deliverable arrangements. In the event that customers are permitted to terminate such arrangements, the underlying contract typically requires payment for deliverables and reimbursement of costs incurred through the date of termination.

Effect of Adopting ASC 606. Adopting ASC 606 did not require any cumulative effect adjustment to retained earnings as of July 1, 2018 because the impact on retained earnings was immaterial. The impact to our condensed consolidated statements of operations is shown below for the three and six month periods ended December 31, 2018 and for the balance sheet as of December 31, 2018.

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Statement of Operations (in thousands)

	Three Months Ended December 31, 2018			Six Months Ended December 31, 2018		
	Results as Reported	Results without Adoption of ASC 606	Effect of Change	Results as Reported	Results without Adoption of ASC 606	Effect of Change
Revenue	$ 303,205	$ 288,376	$ 14,829	$ 569,454	$ 551,043	$ 18,411
Cost of goods sold	192,861	185,133	7,728	363,197	354,290	8,907
Operating expenses	78,637	74,690	3,947	158,293	152,118	6,175
Income from operations	31,707	28,553	3,154	47,964	44,635	3,329
Interest and other expense, net	(5,620)	(5,620)		(10,952)	(10,952)	
Income tax provision	(6,980)	(6,445)	(535)	(8,503)	(7,920)	(583)
Net income	$ 19,107	$ 16,488	$ 2,619	$ 28,509	$ 25,763	$ 2,746

Balance Sheet (in thousands)

	December 31, 2018		
	Balances as Reported	Balances without Adoption of ASC 606	Effect of Change
Assets			
Accounts receivable, net	$ 226,086		