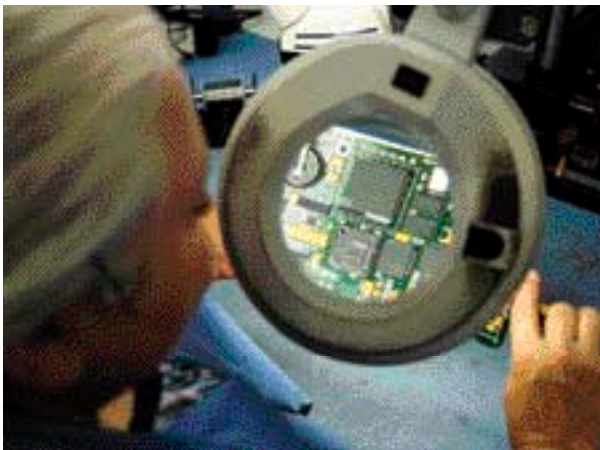




SECURITY



HEALTHCARE



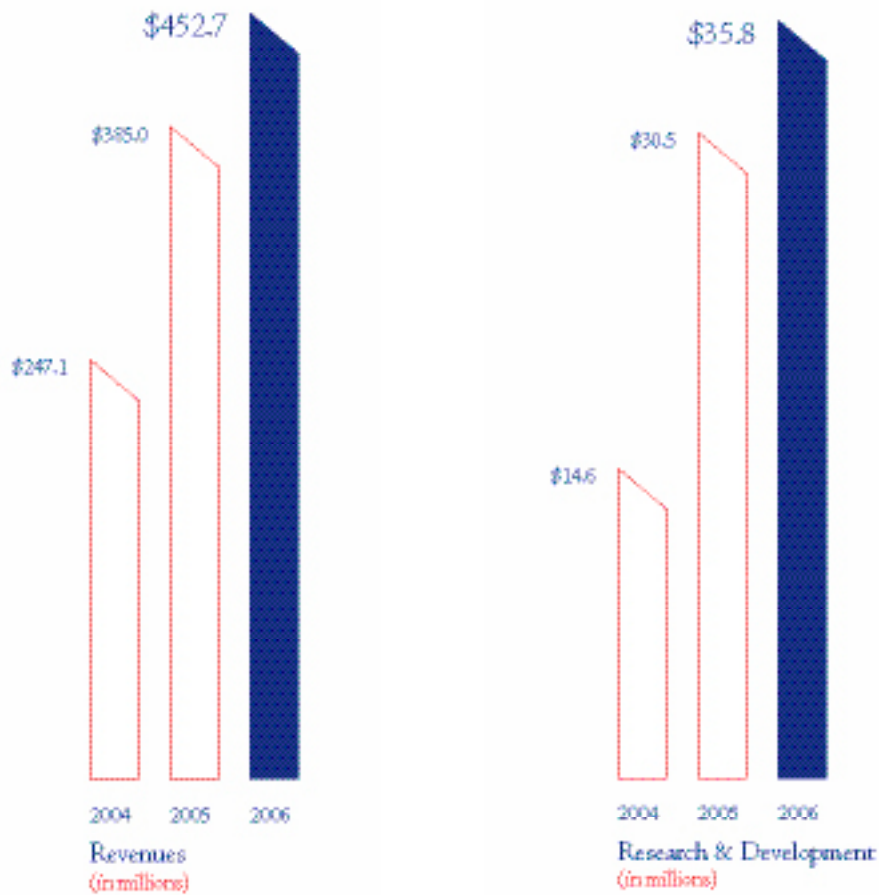
OPTOELECTRONICS

OSI SYSTEMS, INC.
Annual Report 2006

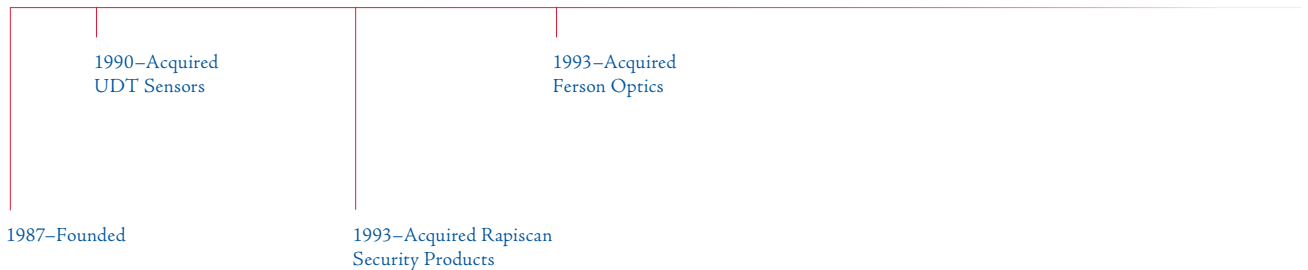
SOLUTIONS FOR THE WORLD

OSI SYSTEMS, INC. & financial highlights

OSI Systems, Inc. (NASDAQ: OSIS) is a vertically-integrated provider of specialized electronic products for critical applications in the Security and Healthcare industries. We have three operating divisions: (a) Security, providing security and inspection systems; (b) Healthcare, providing medical monitoring and anesthesia systems; and (c) Optoelectronics and Manufacturing, providing specialized electronic components for affiliated end product divisions, as well as for applications in the defense and aerospace markets, among others.



OSI Systems, Inc. (1987–1993)





An OSI Systems Company

the preferred global supplier for high-quality security inspection solutions

Our Rapiscan Systems division is a vertically-integrated global leader in the homeland security market. We design, manufacture and market security and inspection systems worldwide to inspect baggage, cargo, vehicles and other objects for weapons, explosives, drugs and other contraband and to screen people. Our customers also use these systems for the safe, accurate and efficient verification of cargo manifests for the purpose of assessing duties and monitoring the export and import of controlled materials. Rapiscan Systems products fall into four categories: baggage and parcel inspection, cargo and vehicle inspection, hold (checked) baggage screening and people screening.



Since 1993, we have installed over 60,000 products in more than 50 countries. From metal detectors to automated explosive detection and container inspection systems, our expansive product portfolio and professional, knowledgeable consultants help government and private sector customers find the perfect security solution for their needs. The systems utilize various technologies that range from X-ray and gamma-ray imaging to advanced neutron and diffraction analysis. They are in use at a variety of locations, such as airports, government and corporate buildings, prisons, postal facilities, military zones, seaports and border crossings.

We often partner with U.S. and foreign governments in order to meet new security threats and to design and deploy, when required, highly-customized solutions. With our experience, dedication and customer support, we provide innovative and dependable security solutions to our global customers and make every effort to continually exceed our customers' expectations.

(1994–2000)

	<p>1997–Acquired Advanced Micro Electronics</p>	<p>1998–Acquired Metorex International</p>
<p>1994–Formed Opto Sensors (Malaysia)</p>	<p>1998–Acquired Osteometer MediTech</p>	



helping physicians and nurses care for their patients worldwide

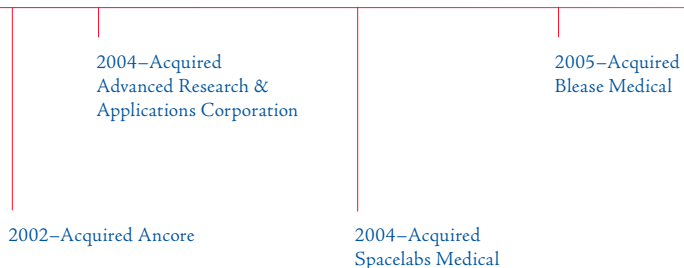


Spacelabs Healthcare is a global innovator and manufacturer of medical systems and services. Our products provide solutions throughout the care process. From clinical trials to critical care environments including the emergency room and perioperative ward, Spacelabs Healthcare products and services facilitate better outcomes and enable more efficient and economical patient management.

Spacelabs Healthcare has a long history of technical innovation in the development of state-of-the-art medical devices. We look for and partner with forward-looking healthcare and technology providers worldwide, so that we can deliver products that diagnose, treat and monitor patients more effectively.

In fiscal year 2006, Spacelabs Healthcare underwent an initial public offering (IPO) by listing approximately 20% of its stock on the London AIM Market. As a result of this IPO, the Spacelabs Healthcare division now enjoys an independent capital structure from which to grow aggressively. Since February 2005, Spacelabs has completed two major acquisitions: (i) Blease, a designer and maker of anesthesia delivery and ventilation systems and (ii) Del Mar Reynolds, a designer and maker of cardiac monitoring systems and provider of clinical trials-related services. Spacelabs Healthcare undertook these acquisitions in order to bolster existing product lines with complementary technologies and services and to expand its global presence.

(2001–2005)



2004–Acquired
Advanced Research &
Applications Corporation

2005–Acquired
Blease Medical

2002–Acquired Ancore

2004–Acquired
Spacelabs Medical

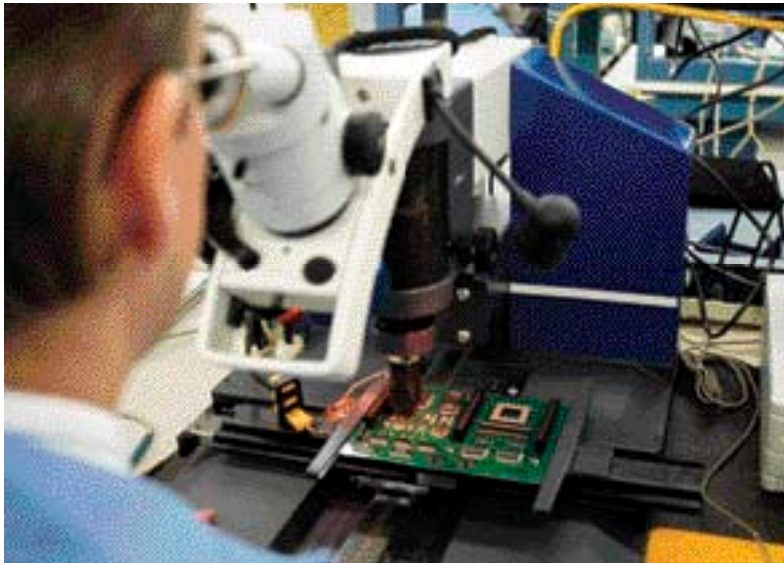


engineering solutions and state-of-the-art manufacturing capabilities

Our Optoelectronics and Manufacturing division designs, manufactures and markets optoelectronic devices and value-added manufacturing services worldwide for use in a broad range of applications, such as satellites, laser guidance systems, range finders, computer peripherals and other applications that require the conversion of optical signals into electronic signals.

Historically, we have also offered value-added manufacturing services to purchasers of our optoelectronic devices, including our Security and Healthcare divisions. More recently, however, we have begun to expand such services by providing complete turn-key and box-build manufacturing services to our customers.

We see a trend among original equipment manufacturers to increasingly outsource the design and manufacture of optoelectronic devices as well as value-added subsystems to fully-integrated, independent manufacturers, like us, who may have greater specialization, broader expertise and the flexibility to respond in shorter time periods than most original equipment manufacturers can accomplish in-house. The level of vertical integration, substantial engineering resources, expertise in the use and application of optoelectronic technology and low-cost international manufacturing operations offered by us enables us to meet these demands.



(2005–Present)

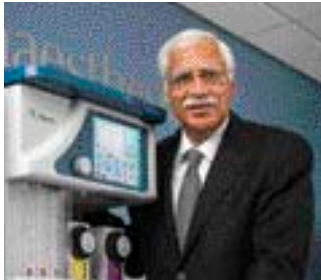
2005–Reorganized the Healthcare division under the “Spacelabs Healthcare” trade name and completed the IPO of Spacelabs Healthcare

2006–Acquired Del Mar Reynolds

2005–Reorganized the Security division under the “Rapiscan Systems” trade name

2006–Reorganized the Optoelectronics and Manufacturing division under the “OSI Optoelectronics” and “OSI Electronics” trade names

TO OUR SHAREHOLDERS,



Fiscal year 2006 was a period of accomplishments and challenges for our company. We achieved record sales while simultaneously investing in the founda-

tions necessary for future growth, but we experienced a net loss. Over the course of the year, we continued to improve operating efficiencies and expect this upward momentum to continue in fiscal 2007.

We are a vertically-integrated designer and manufacturer of specialized electronic systems and optical components that are used in a broad range of applications. We have used our expertise in these areas as a platform for building branded end product businesses in security and healthcare. From this platform, we are able to control manufacturing costs, improve time-to-market capabilities, and provide exceptional service to our customers.

The security and healthcare markets provide significant growth opportunities. We intend to take advantage of these opportunities by adding new products, building greater market share and leveraging our infrastructure to improve profitability. For us, achieving these goals will involve developing new technologies, manufacturing capabilities and access to markets, and integrating this growth to achieve long-term competitive advantages that will be reflected in our bottom line.

Our Security division has been investing heavily in the development of cargo and vehicle inspection systems. We now offer to the global security market the broadest range of cargo and vehicle inspection products available from any company. Our investment is beginning to show some early returns—during the fourth quarter of fiscal 2006 this product line achieved profitability and we enter fiscal 2007 with a healthy backlog.

Our Healthcare division delivered on its growth strategy during the 2006 fiscal year. Revenues increased by 13%, as compared to the prior fiscal year, while operating income increased by 75% as we benefited from operational efficiencies stemming from increased manufacturing volumes. In October 2005, we raised \$26.3 million, net of expenses, through an IPO of our Spacelabs Healthcare subsidiary on the AIM exchange in London. In July 2006, we acquired Del Mar Reynolds, a developer and manufacturer of cardiac monitoring systems. Del Mar Reynolds offers several synergies, including fitting efficiently into our business infrastructure while broadening our product offerings.

Our Optoelectronics and Manufacturing division has always been at the core of our operations, providing our Security and Healthcare divisions with specialized electronic systems and optical components. These inter-company relationships offer many advantages, including enhanced delivery flexibility and time-to-market capabilities.

Our Optoelectronics and Manufacturing division also serves numerous external customers in industries such as aerospace and defense electronics, medical imaging and diagnostics, telecommunications, gaming, office automation, computer peripherals and industrial automation. During fiscal year 2006, our Optoelectronics and Manufacturing division captured more inter-company and external revenues than ever before, up 49% from the prior year, and leveraged the infrastructure to improve operating income by 103% from the prior year.

In addition, we received a favorable verdict in our lawsuit with L-3 Communications Corporation when the jury awarded us \$125 million in damages. L-3 is seeking to have the verdict reduced or reversed. Litigation outcomes are never guaranteed, but we are confident that the jury's verdict was correct and we hope to have the entire matter resolved favorably in the not-too-distant future.

Overall, our revenues for fiscal 2006 increased by \$67.7 million, or 18%, to \$452.7 million, from \$385.0 million for fiscal 2005. Our revenues for the second half of fiscal 2006 increased by \$14.7 million, or 6.7%, to \$233.7 million, from \$219 million for the first half of fiscal 2006. Nevertheless, we experienced a net loss for the full year of \$2.4 million or \$(0.17) per diluted share, including stock-based compensation expenses of \$5.4 million, or \$0.25 per diluted share.

We are making progress toward improving our bottom line by capturing additional operating efficiencies, even as we absorb relatively large expenses relating to ongoing litigation, the integration of acquisitions and stock-based compensation expenses.

As we enter fiscal year 2007, we have an all-time record backlog. While this is impressive, we are focused on improving the bottom line by leveraging our infrastructure. Building long-term value through increased financial performance is our highest priority. We are very enthusiastic about our prospects for fiscal 2007 and look forward to reporting to you on our continued progress.

Sincerely,

Deepak Chopra

President, Chief Executive Officer and Chairman of the Board

OSI SYSTEMS, INC. CORPORATE AND SHAREHOLDER INFORMATION

BOARD OF DIRECTORS

Deepak Chopra
Chairman of the Board,
Chief Executive Officer and President

Ajay Mehra
Executive Vice President and
President, Rapiscan Systems

Steven C. Good
Director

Meyer Lusk
Director

Chand R. Viswanathan
Director

Leslie E. Bider
Director

EXECUTIVE OFFICERS

Deepak Chopra
Chairman of the Board,
Chief Executive Officer and President

Ajay Mehra
Executive Vice President and
President, Rapiscan Systems

Alan Edrick
Executive Vice President and
Chief Financial Officer

Victor Sze
Executive Vice President and
General Counsel

David Tilley
President
Healthcare Division

Manoocher Mansouri
President
Optoelectronics and Contract
Manufacturing Division

Andreas F. Kotowski
Chief Technology Officer
Security Division

Roy Hays
Chief Technology Officer
Healthcare Division

INDEPENDENT AUDITORS

Moss Adams, LLP
Los Angeles, California

REGISTRAR AND TRANSFER AGENT

U.S. Stock Transfer Corporation
Glendale, California

MARKET INFORMATION

The NASDAQ Stock Market
Symbol: OSIS

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 10:30 a.m.
Thursday, November 30, 2006, at:

OSI Systems, Inc.
12525 Chadron Avenue
Hawthorne, California 90250



 SYSTEMS, INC.

12525 Chadron Avenue
Hawthorne, California 90250
p: 310-978-0516
f: 310-644-7213