

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OSI SYSTEMS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

CALIFORNIA
(STATE OR OTHER JURISDICTION
OF INCORPORATION OR ORGANIZATION)

3674
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

33-0238801
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

DEEPAK CHOPRA
PRESIDENT AND CHIEF EXECUTIVE OFFICER
OSI SYSTEMS, INC.
12525 CHADRON AVENUE
HAWTHORNE, CALIFORNIA 90250
TEL. (310) 978-0516
(NAME, ADDRESS AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

COPIES TO:

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553-4441 FAX. (310) 201-4746

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC:
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, as amended ("Securities Act"), check the following box.

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, please check the following
box and list the Securities Act registration statement number of the earlier
effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c)
under the Securities Act, check the following box and list the Securities Act
registration statement of the earlier effective registration statement for the
same offering.

If the delivery of the prospectus is expected to be made pursuant to Rule
434, please check the following box.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR
DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT
SHALL FILE A FURTHER AMENDMENT THAT SPECIFICALLY STATES THAT THIS REGISTRATION
STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF
THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME
EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION
8(a), MAY DETERMINE.

+ INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A +
 +REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE +
 +SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY +
 +OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT +
 +BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR +
 +THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE +
 +SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE +
 +UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF +
 +ANY SUCH STATE. +
 +

SUBJECT TO COMPLETION, DATED AUGUST 15, 1997

[LOGO OF OPTO-SENSORS, INC.]

3,700,000 SHARES

COMMON STOCK

Of the 3,700,000 shares of Common Stock offered hereby, 3,330,000 shares are being sold by OSI Systems, Inc. (the "Company") and 370,000 shares are being sold by the Selling Shareholders. See "Principal and Selling Shareholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Shareholders.

Prior to this Offering, there has been no public market for the Common Stock of the Company. It is currently estimated that the initial public offering price will be between \$13.00 and \$14.00 per share. See "Underwriting" for information relating to the method of determining the initial public offering price. The Company has made application for inclusion of the Common Stock on the Nasdaq National Market under the symbol "OSIS."

 THE COMMON STOCK OFFERED HEREBY INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 7.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING SHAREHOLDERS(2)
Per Share...	\$	\$	\$	\$
Total(3)....	\$	\$	\$	\$

- (1) The Company and the Selling Shareholders have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Securities Act"). See "Underwriting."
- (2) Before deducting estimated offering expenses of \$ payable by the Company and \$ payable by the Selling Shareholders.
- (3) Certain of the Selling Shareholders have granted to the Underwriters a 30-day option to purchase up to an additional 555,000 shares of Common Stock solely to cover over-allotments, if any. If such over-allotment option is exercised in full, the total Price to Public, Underwriting Discounts and Commissions, and Proceeds to Selling Shareholders will be \$, \$ and \$, respectively. See "Underwriting."

 The Common Stock is offered by the Underwriters as stated herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that delivery of such shares will be made through the offices of Robertson, Stephens & Company LLC ("Robertson, Stephens & Company"), San Francisco, California, on or about , 1997.

ROBERTSON, STEPHENS & COMPANY
 WILLIAM BLAIR & COMPANY
 VOLPE BROWN WHELAN & COMPANY

The date of this Prospectus is , 1997.

OSI Systems, Inc. is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for original equipment manufacturers for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband.

RAPISCAN

Security and Inspection Products

[Picture of a woman standing in front of a Rapiscan 119 Table Top System machine]
Rapiscan 119 Table Top System

[Picture of a woman walking through a Rapiscan AMD 750 Metal Arch machine]
Rapiscan AMD 750 Metal Arch

[Picture of Rapiscan 520 Carry On System machine]
Rapiscan 520 Carry On System

[Picture of Rapiscan 532 Cargo System machine with image of person next to the system]
Rapiscan 532 Cargo System

[Three images of baggage with various contents]
Conventional Dual Energy Image
Organic Material Image
Enhanced Picture X-Ray (EPX) Image

[Picture of a Rapiscan Series 500 X-Ray van with open side door]
Rapiscan Series 500 X-Ray Van

CERTAIN PERSONS PARTICIPATING IN THIS OFFERING MAY ENGAGE IN TRANSACTIONS THAT STABILIZE, MAINTAIN, OR OTHERWISE AFFECT THE PRICE OF THE COMMON STOCK, INCLUDING BY OVER-ALLOTMENT, ENTERING STABILIZING BIDS, EFFECTING SYNDICATE COVERING TRANSACTIONS OR THE IMPOSITION OF PENALTY BIDS. FOR A DESCRIPTION OF THESE ACTIVITIES, SEE "UNDERWRITING."

OSI SYSTEMS, INC.

Optoelectronic Devices and Subsystems

[Picture of man with Pulse Oximetry Probe attached to his finger and woman sitting next to him]
Pulse Oximetry Probe

[Picture of computer and medical imaging equipment]
Medical Imaging Sensor Electronics

[Picture of hand-held Barcode Readout Sensor]
Barcode Readout Sensor

[Picture of detector device]
High Energy Radiation Detector

[Picture of various cables and subassemblies]
Opto-Assembly/Medical

[Picture of various printed circuit boards]
Custom PC Boards

[Picture of various optical components and subassemblies]
Optics

[Picture of X-ray scanning machine]
Imaging Sensor Electronics

[Picture of military attack helicopter]
Laser Warning Detector

[Picture of sensor device]
Satellite Sun Sensors

[Picture of submarine]
Fire Detection Subassembly

[Picture of various molding parts and casings]
Tool & Die and Injection Molding

[Picture of various photodetectors]
Custom Photodetectors

[Picture of various chips and printed circuit boards]
Ceramic Substrates/Hybrids

[Picture of array chip]
Hybrid

[Picture of slot machine]
Hopper Optical Assembly

[Schematic Image of Ring Laser Gyro Detector]
Ring Laser Gyro (RLG) Detector

[Picture of Color Sensor Hybrid]
Color Sensor Hybrid

NO DEALER, SALES REPRESENTATIVE OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY SELLING SHAREHOLDER OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY SECURITIES OTHER THAN THE REGISTERED OFFER AND SALE OF THE SECURITIES TO WHICH IT RELATES OR AN OFFER TO, OR A SOLICITATION OF, ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

UNTIL , 1997 (25 DAYS FROM THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE COMMON STOCK, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A PROSPECTUS. THIS DELIVERY REQUIREMENT IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS UNDERWRITERS AND WITH RESPECT TO THEIR UNSOLD ALLOTMENTS OR SUBSCRIPTIONS.

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 The Company intends to furnish its shareholders with annual reports containing consolidated audited financial statements and quarterly reports containing unaudited consolidated financial data for the first three quarters of each fiscal year.

Rapiscan(R) is a registered trademark of the Company. This Prospectus also contains trademarks and tradenames of other companies.

The Company is a California corporation organized in 1987. In June 1997, the Company changed its name from Opto Sensors, Inc. to OSI Systems, Inc. The Company's principal subsidiaries are: UDT Sensors, Inc., a California corporation ("UDT Sensors"); Rapiscan Security Products (U.S.A.), Inc., a California corporation ("Rapiscan U.S.A."); Ferson Optics, Inc. ("Ferson"), a California corporation; Rapiscan Security Products Limited, a United Kingdom corporation ("Rapiscan UK"); Opto Sensors (Singapore) Pte Ltd, a corporation organized under the laws of Singapore ("OSI Singapore"); Opto Sensors (Malaysia) Sdn. Bhd., a Malaysian corporation ("OSI Malaysia"); and Advanced Micro Electronics AS, a Norwegian company ("AME"). The principal executive offices of the Company are located at 12525 Chadron Avenue, Hawthorne, California 90250. The Company's telephone number is (310) 978-0516. Unless otherwise indicated by the context, all references in this Prospectus to the "Company" are to OSI Systems, Inc. and to one or more, but not necessarily all of its consolidated subsidiaries.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and consolidated financial statements and notes thereto appearing elsewhere in this Prospectus, including the information under "Risk Factors."

THE COMPANY

OSI Systems, Inc. (the "Company") is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for original equipment manufacturers ("OEMs") for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In fiscal 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$42.9 million, or approximately 55.2% of the Company's revenues, while revenues from sales of security and inspection products amounted to \$34.7 million, or approximately 44.8% of the Company's revenues.

Optoelectronic Devices and Subsystems

The Company manufactures a wide range of optoelectronic devices which it integrates into complex subsystems vital to various end products, including x-ray and computer tomography ("CT") imaging systems, industrial robotics, medical monitoring and diagnostic products, optical drives for computer peripherals, bar code scanners, and aviation gyroscopes. These optoelectronic devices operate by sensing light of varying wave lengths and converting the light into electronic signals. In addition to manufacturing optoelectronic devices, the Company produces optoelectronic subsystems and offers a range of vertically integrated services to its subsystem customers. These services include component design and customization, subsystem concept design and application engineering, product prototyping and development, pre-production, and short-run and high volume manufacturing. In fiscal 1997, the Company manufactured subsystems for use in more than 100 different applications, including those of approximately 50 major OEM customers such as Picker International, Honeywell Avionics, Eastman Kodak, Xerox, Johnson & Johnson, Bausch & Lomb, Texas Instruments, Boeing Aircraft Co. and Hewlett-Packard. During fiscal 1997, no single OEM customer accounted for more than 10.0% of the Company's revenues and the top five customers collectively represented less than 20.0% of the Company's revenues.

The Company believes that in recent years advances in technology and reductions in the cost of key components of optoelectronic systems, including computer processing power and memory, have broadened the market by enabling the use of optoelectronic devices in a greater number of applications. In addition, the Company believes that there is a trend among OEMs to increasingly outsource the design and manufacture of optoelectronic subsystems to fully integrated, independent manufacturers who may have greater specialization, broader expertise, and the ability and flexibility to respond in shorter time periods than the OEMs could accomplish in-house. The Company believes that its high level of vertical integration, substantial engineering resources, expertise in the use and application of optoelectronic technology, and low-cost international manufacturing operations, enable it to effectively compete in the market for optoelectronic devices and subsystems.

Security and Inspection Products

The Company manufactures a range of security and inspection products that are used for conventional security purposes including the detection of concealed weapons and contraband, as well as for a variety of non-security applications. The Company's security and inspection products utilize linear x-ray technology to create a two-dimensional image of the contents of the object being inspected. These products may function either as stand-alone systems or as components of an integrated security system. Locations where these products are currently used for security inspection purposes include airports, government offices, post offices,

courthouses, jails, embassies, commercial buildings and mail sorting facilities. Non-security inspection uses of these products include the detection of illegal narcotics, inspection of agricultural products, examination of cargo to mitigate the avoidance of import duties, and non-destructive product testing. The Company currently manufactures 16 models of products with different sizes, price points and imaging capabilities in order to appeal to the breadth of security and non-security applications for its products. Since entering the security and inspection market in 1993, the Company has shipped more than 2,000 units of its security and inspection products to over 50 countries. The Company believes that the growth in the market for security and inspection products will continue to be driven by the increased perception of threat fueled by recent terrorist incidents, increased government mandates and appropriations, and the emergence of a growing market for the non-security applications of its products.

The Company's objectives are to be a leading provider of specialized optoelectronic products, to enhance its position in the international inspection and detection marketplace, and to leverage its expertise in the optoelectronic technology industry by integrating into new end-markets on a selective basis. Key elements of the Company's growth strategy include leveraging its expertise in optoelectronic design and manufacturing to address new applications, further penetrating existing security and inspections markets, capitalizing on its high-level of vertical integration and on its global presence, and selectively entering into new end-product markets. Since 1990, the Company has completed four acquisitions. The Company intends to continue to pursue additional acquisition opportunities that expand the Company's technological capabilities, increase the breadth of its product offerings, and increase its geographic presence. As with the security and inspection operations that the Company acquired in 1993, the Company seeks to make acquisitions in which: (i) the Company's core optoelectronic technology is a significant technology component; (ii) the market for the products offers favorable pricing dynamics; (iii) the competitive market dynamics provide for substantial growth in market share; and (iv) the Company's existing manufacturing, sales and service organization provide the acquired operations with a strategic and cost advantage.

The Company currently manufactures its optoelectronic devices and subsystems at facilities in Hawthorne, California, in Ocean Springs, Mississippi, in Johor Bahru, Malaysia, and in Horten, Norway. Its security and inspection products are currently manufactured at facilities in Crawley, England, in Long Beach, California, and in Johor Bahru, Malaysia. As of June 30, 1997 the Company marketed its products worldwide through approximately 42 sales and marketing employees located in five countries, and through approximately 95 independent sales representatives.

THE OFFERING

Common Stock Offered by the Company.	3,330,000 shares
Common Stock Offered by the Selling Shareholders.....	370,000 shares
Common Stock Outstanding after the Offering.....	9,486,528 shares(1)
Use of Proceeds.....	To repay certain indebtedness, to increase funds available for research and development, to enhance its sales and marketing capabilities, to pursue possible acquisitions, and for general corporate purposes, including working capital. See "Use of Proceeds."
Proposed Nasdaq National Market Symbol.....	OSIS

(1) Based on the number of shares outstanding on August 15, 1997. Excludes approximately 860,486 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of \$7.34 per share.

SUMMARY CONSOLIDATED FINANCIAL DATA
(In thousands, except share and per share data)

	YEAR ENDED JUNE 30,				
	1993	1994	1995	1996	1997
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues.....	\$27,225	\$47,735	\$49,815	\$61,518	\$77,628
Cost of goods sold.....	20,591	36,037	37,818	45,486	56,174
Gross profit.....	6,634	11,698	11,997	16,032	21,454
Operating expenses:					
Selling, general and administrative(1).....	4,014	7,974	7,601	9,757	11,304
Research and development...	1,034	1,451	1,591	1,663	2,504
Stock option compensation(2).....	--	--	--	--	856
Total operating expenses...	5,048	9,425	9,192	11,420	14,664
Income from operations.....	1,586	2,273	2,805	4,612	6,790
Interest expense.....	471	710	1,251	1,359	1,197
Income before income taxes and minority interest.....	1,115	1,563	1,554	3,253	5,593
Provision for income taxes..	462	814	413	1,111	1,416
Income before minority interest.....	653	749	1,141	2,142	4,177
Minority interest.....	6	38	17	117	--
Net income.....	\$659	\$787	\$1,158	\$2,259	\$4,177
Net income available to common shareholders(3)(4)..	\$814	\$995	\$1,357	\$2,308	\$4,269
Net income per share(3)(4)(5).....	\$0.13	\$0.16	\$0.22	\$0.38	\$0.68
Weighted average shares outstanding(5).....	6,139,429	6,249,674	6,172,901	6,134,669	6,263,963

JUNE 30, 1997

ACTUAL AS ADJUSTED(6)

CONSOLIDATED BALANCE SHEET DATA:

Cash.....	\$ 553	\$29,839
Working capital.....	10,800	49,961
Total assets.....	47,333	76,619
Total debt.....	13,180	1,258
Total shareholders' equity.....	16,809	58,017

- (1) Fiscal 1994 includes a one-time charge of \$1.5 million incurred in connection with the settlement of a governmental proceeding. See "Business--Legal Proceedings."
- (2) Represents a charge resulting from the acceleration of the vesting periods of outstanding stock options having exercise prices below the fair market value on the date of grant. The charge had the effect of decreasing income from operations, net income and net income available to common shareholders by \$856,000, \$514,000 and \$514,000 respectively.
- (3) Gives effect to the conversion of certain subordinated debt into preferred stock and Common Stock in October and November 1996, and the issuance of Common Stock for the purchase of the remaining minority interests in certain subsidiaries in October and December 1996 as if such transactions occurred on July 1, 1992. Adjustments in each of the five years ended June 30, 1997 consist of: (i) the elimination of interest expense related to converted subordinated debt of \$161,000, \$246,000, \$216,000, \$166,000 and \$92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of \$6,000, \$38,000, \$17,000, \$117,000 and \$0, respectively.
- (4) Supplementary net income for each of the five years ended June 30, 1997 is \$936,000, \$1,163,000, \$1,939,000, \$2,913,000 and \$4,872,000, respectively, reflecting the reduction in interest expense, net of income taxes, from the effect of debt repayments discussed under "Use of Proceeds." Supplementary net income per share for the corresponding periods is \$0.15, \$0.18, \$0.28, \$0.42 and \$0.68, respectively, and reflects only the additional shares issued to repay that debt.
- (5) Assumes the conversion of 2,568,750 shares of preferred stock into 3,853,125 shares of Common Stock as of July 1, 1992. The preferred stock had a liquidation preference of \$1.00 per share, and was otherwise entitled

to the same voting, dividend and all other rights as the Common Stock.

- (6) Adjusted to give effect to the sale of 3,330,000 shares of Common Stock offered by the Company hereby, at an assumed initial public offering price of \$13.50 per share and after deducting underwriting discounts, commissions and estimated Offering expenses, and the application of the net proceeds therefrom.

Unless otherwise indicated, all information in this Prospectus: (i) reflects a 1.5-for-1 stock split (the "Stock Split") of the Common Stock effected in June 1997; (ii) reflects the conversion of each outstanding share of the Company's preferred stock into 1.5 shares of the Common Stock concurrent with the Stock Split; and (iii) assumes the Underwriters' over-allotment is not exercised. All references to the Company's fiscal years refer to the periods ending June 30.

RISK FACTORS

In addition to the other information in this Prospectus, investors should carefully consider the following risk factors when evaluating an investment in the Common Stock offered hereby. This Prospectus contains forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. The cautionary statements made in this Prospectus should be read as being applicable to all forward-looking statements wherever they appear in this Prospectus. The Company's actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this Prospectus.

FLUCTUATIONS IN QUARTERLY RESULTS

The Company's quarterly operating results have varied in the past and are likely to vary significantly in the future. These quarterly fluctuations are the result of a number of factors, including the volume and timing of orders received and shipments made during the period, variations in the Company's product mix, changes in demand for the Company's products, the timing and amount of expenditures made by the Company in anticipation of future sales, variability in selling price, and other competitive conditions. The Company's revenues, particularly from the sale of security and inspection products, are increasingly dependent upon larger orders of multiple units and upon the sale of products having higher average selling prices. The Company is unable to predict the timing of the receipt of such orders and, as a result, significant variations between forecasts and actual orders will often occur. Furthermore, the rescheduling of the shipment of any large order, or portion thereof, or any production difficulties or delays experienced by the Company, could have a material adverse effect on the Company's quarterly operating results. Due to the foregoing factors, it is possible that in future quarters the Company's operating results will not meet the expectations of public market analysts and investors. In such event, the price of the Company's Common Stock would be materially adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business -- Backlog."

COMPETITION

The markets in which the Company operates are highly competitive and are characterized by evolving customer needs and rapid technological change. The Company competes with a number of other manufacturers, many of whom have significantly greater financial, technical and marketing resources than the Company. In addition, these competitors may have the ability to respond more quickly to new or emerging technologies, may adapt more quickly to changes in customer requirements, may have stronger customer relationships, may have greater name recognition, and may devote greater resources to the development, promotion and sale of their products than does the Company. In the optoelectronic device and subsystem market, competition is based primarily on factors such as expertise in the design and development of optoelectronic devices, product quality, timeliness of delivery, price, customer technical support, and on the ability to provide fully integrated services from application development and design through volume subsystem production. The Company believes that its major competitors in the optoelectronic device and subsystem market are EG&G Electro-Optics, a division of EG&G, Inc., Optek Technology Inc., Hamamatsu Corporation, and Honeywell Optoelectronics, a division of Honeywell, Inc. In the security and inspection market, competition is based primarily on such factors as product performance, functionality and quality, the over-all cost of the system, prior customer relationships, technological capabilities of the product, price, certification by government authorities, local market presence, and breadth of sales and service organization. The Company believes that its principal competitors in the market for security and inspection products are EG&G Astrophysics, a division of EG&G, Inc. ("EG&G Astrophysics"), Heimann Systems GmbH, InVision Technologies, Inc., Vivid Technologies, American Science and Engineering, Inc., Barringer Technologies Inc., Control Screening L.L.C., and Thermedics Detection, Inc. In addition, the Company supplies optoelectronic devices and subsystems to certain OEMs which, in turn, manufacture end-products that compete with the Company's own products. There can be no assurance that these competing OEMs will continue to purchase

optoelectronic products from the Company. Competition could result in price reductions, reduced margins, and a decrease in the Company's market share. There can be no assurance that the Company will be able to compete successfully against any current or future competitors in either market or that future competitive pressures will not materially and adversely affect its business, financial condition and results of operations. See "Business-- Competition."

LARGE ORDERS; LENGTHY SALES CYCLES

Sales of the Company's security and inspection products have increasingly been characterized by large orders of multiple units or of products having higher average selling prices. The Company's inability to obtain such additional large orders could have a material adverse effect on the Company's business, financial condition and results of operations. Sales of security and inspection products depend in significant part upon the decision of governmental agencies to upgrade or expand existing airports, border crossing inspection sites and other security installations. Accordingly, a portion of the Company's sales of security inspection and detection products is often subject to delays associated with the lengthy approval processes that often accompany such capital expenditures. During these approval periods, the Company expends significant financial and management resources in anticipation of future orders that may not occur. A failure by the Company to receive an order after expending such resources could have a material adverse effect on its business, financial condition and results of operations.

RAPID TECHNOLOGICAL CHANGE

The markets for all of the Company's products are subject to rapidly changing technology. As OEMs seek to develop and introduce new, technologically-advanced products and product enhancements, the Company is required to design, develop and manufacture optoelectronic devices and subsystems to meet these new and enhanced product requirements. Accordingly, the Company's performance as a designer and manufacturer of optoelectronic devices and subsystems is dependent upon its ability to keep pace with technological developments in both the optoelectronic market and in the numerous markets that its products serve. Any delay or failure in the Company's ability to design and manufacture the increasingly complex and technologically-advanced products that its customers demand will have a material adverse effect on the Company's business, financial condition and results of operations. In addition, technological changes and market forces continually affect the products sold by the Company's customers and thereby alter the demand for the Company's optoelectronic subsystems. The Company has in the past suddenly and unexpectedly lost orders for entire subsystem product lines due to technological changes that made the products sold by the Company's customers obsolete. The market for the Company's security and inspection products is also characterized by rapid technological change as the security industry seeks to develop new and more sophisticated products. New and enhanced security and inspection products are continuously being developed and introduced by the Company's competitors, including products that use advanced x-ray technologies, CT technology, or electro-magnetic and ultrasound technologies. The Company believes that its future success in the security and inspection industry will depend in large part upon its ability to enhance its existing product lines and to successfully develop new products that meet changing customer requirements. No assurance can be given that new industry standards or changing technology will not render the Company's existing security and inspection products obsolete. The failure of the Company's security and inspection product lines to meet new technological requirements or new industry standards will have a material adverse effect on the Company's business, financial condition and results of operations.

AVAILABILITY OF RAW MATERIALS AND COMPONENTS

The Company purchases certain raw materials and subcomponents from third parties pursuant to purchase orders placed from time to time. Purchase order terms range from three months to one year at fixed costs, but the Company has no guaranteed long-term supply arrangements with its suppliers. Any material interruption in the Company's ability to purchase necessary raw materials or subcomponents could have a material adverse effect on the Company's business, financial condition and results of operations. Silicon-based optoelectronic devices manufactured by the Company are critical components in most of the Company's

subsystems. Since 1987, the Company has purchased substantially all of the silicon wafers it uses to manufacture its optoelectronic devices from Wacker Siltronic Corp., a United States subsidiary of Wacker Siltronic AG, a German company. The Company's dependence on this single source of supply exposes the Company to several risks, including limited control over pricing, availability of material, and material delivery schedules. Although the Company has not experienced any significant shortages or material delays in obtaining silicon wafers from Wacker Siltronic Corp., a major interruption in the delivery of silicon wafers from Wacker Siltronic Corp. would materially disrupt the Company's operations and could have a material adverse effect on the Company's business, financial condition and results of operations. The inability of the Company to develop alternative sources for single or sole source components, or to obtain sufficient quantities of these components, would adversely affect the Company's operations. See "Business--Manufacturing and Materials Management."

INTERNATIONAL BUSINESS; FLUCTUATION IN EXCHANGE RATES; RISKS OF CHANGES IN FOREIGN REGULATIONS

In fiscal 1995, 1996 and 1997, revenues from shipments made outside of the United States accounted for approximately 32.0%, 38.0% and 42.2%, respectively, of the Company's revenues. Of the revenues generated during fiscal 1997 from shipments made outside of the United States, 14.9% represented sales from the United States to foreign customers, and the balance represented sales generated by the Company's foreign subsidiaries. The Company anticipates that international sales will continue to account for a material portion of the Company's revenues and that, accordingly, a major portion of the Company's business will be exposed to the risks associated with conducting international business operations, including unexpected changes in regulatory requirements, changes in foreign legislation, possible foreign currency controls, currency exchange rate fluctuations or devaluations, tariffs, difficulties in staffing and managing foreign operations, difficulties in obtaining and managing vendors and distributors, potentially negative tax consequences, and difficulties in collecting accounts receivable. The Company is also subject to risks associated with laws regulating the import and export of high technology products. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions upon the importation or exportation of the Company's products will be implemented by the United States or any other country in the future. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH MANAGING GROWTH AND ACQUISITIONS

Since 1990, the Company has experienced significant growth through both internal expansion and through acquisitions. During this period, OSI Systems, Inc. established its Rapiscan U.S.A. operations and its Malaysian manufacturing facilities and acquired UDT Sensors, Rapiscan UK, Ferson and AME. This growth has placed, and may continue to place, significant demands on the Company's management, working capital and financial resources. Failure to continue to expand and enhance the Company's management and its financial control systems could adversely affect the Company's business, financial condition and results of operations. There can be no assurance that the Company's current management and systems will be adequate to address any future expansion of the Company's business. An element of the Company's strategy is to pursue acquisitions that would complement its existing range of products, augment its market coverage or enhance its technological capabilities or that may otherwise offer growth opportunities. Such future acquisitions by the Company could result in potentially dilutive issuances of equity securities, the incurrence of debt and contingent liabilities, and the amortization of expenses related to goodwill and other intangible assets, any of which could materially adversely affect the Company's business, financial condition and results of operations. Acquisitions entail numerous risks, including difficulties in the assimilation of acquired operations, technologies and products, diversion of management's attention to other business concerns, risks of entering markets in which the Company has no, or limited, prior experience and the potential loss of key employees of acquired organizations. No assurance can be given as to the ability of the Company to successfully integrate any acquired business, product, technology or personnel with the operations of the Company, and the failure of the Company to do so could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has no current agreement or negotiations underway with

respect to any such acquisition, the Company may make acquisitions of businesses, products or technologies in the future. See "Use of Proceeds."

PROPRIETARY TECHNOLOGY; PENDING LITIGATION

The Company believes that its principal competitive strength is its ability to design, develop and manufacture complex optoelectronic devices and subsystems for various industry segments. The Company does not rely upon any of its own patents or copyrights in the development or manufacture of its products. Accordingly, there are no legal barriers that prevent potential competitors from copying the Company's products, processes and technologies or from otherwise entering into operations in direct competition with the Company.

The Company's Rapiscan U.S.A. subsidiary has entered into a non-exclusive patent license agreement with EG&G Inc. Under the license, Rapiscan U.S.A. is permitted to make, use and sell or otherwise dispose of security and inspection products that use an x-ray line scan system for baggage inspection purposes covered by EG&G Inc.'s patent. The patent, which expires in 2000, does not affect sales of the Company's security and inspection products manufactured and sold outside of the United States. The license may be terminated by EG&G Inc. in the event of a breach of the license agreement by Rapiscan U.S.A. The termination of the EG&G Inc. license would have a material adverse effect upon the Company's sales of its security and inspection products in the United States and upon the Company's business, financial condition and results of operations.

In a lawsuit currently pending before the United States District Court for the Central District of California, Lunar Corporation ("Lunar") and the University of Alabama Research Foundation ("UAB") have alleged that OSI Systems, Inc., UDT Sensors and Rapiscan U.S.A. infringe United States Patent No. 4,626,688 (" '688 patent"). UAB owns the '688 patent and has granted an exclusive license to Lunar. The '688 patent is directed to a dual energy radiation detector. The lawsuit concerns those Rapiscan U.S.A.'s baggage scanner products which contain a dual energy detector, and detector components produced by UDT Sensors ("accused products"). Lunar and UAB are requesting that the court grant them damages in an unspecified amount and an injunction barring Rapiscan U.S.A., UDT Sensors and OSI Systems, Inc. from making, using, selling or offering for sale, the accused products in the United States. Rapiscan U.S.A., UDT Sensors and OSI Systems, Inc. have alleged that the accused products do not infringe the '688 patent, that the '688 patent is invalid and that in any event, Lunar had previously agreed that Rapiscan U.S.A. and UDT Sensors did not infringe the '688 patent, so that Lunar's claim is estopped, limited by laches or that an implied license has been granted by Lunar.

The Company believes it has meritorious defenses and claims in the lawsuit with Lunar and UAB and believes that the likelihood of Lunar and UAB prevailing in its patent infringement lawsuit against the Company is remote. However, no assurance can be given that the Company will be successful in this lawsuit. In the event that the court determines that the accused products infringe the '688 patent and that Rapiscan U.S.A. and UDT Sensors do not have the right to use technology covered by the '688 patent, the court could grant Lunar and UAB a permanent injunction in which case Rapiscan U.S.A. could be prevented from marketing most of its baggage scanner products in the United States and UDT Sensors could be prevented from marketing certain detector components. Rapiscan U.S.A. and UDT Sensors could also be required to pay a significant amount of damages. Any such outcome would have a material adverse effect upon the Company's business, financial condition and results of operations. For the year ended June 30, 1997, sales of security and inspection products that are allegedly infringing upon Lunar and UAB's rights constituted \$10.5 million or approximately 13.5% of the Company's revenues. Through June 30, 1997, the Company has incurred legal fees in the amount of approximately \$368,000 in connection with this lawsuit. The Company intends to pursue vigorously its legal remedies in this lawsuit. As a result, the Company will continue to expend significant financial and other resources in connection with this lawsuit. See "Business--Legal Proceedings."

The Company may from time to time in the future receive communications from third parties alleging infringements by the Company of patents or other intellectual property rights owned by such third parties. If

any of the Company's products are found to infringe a patent, a court may grant an injunction to prevent the Company from making, selling or using these products in the applicable country. Protracted litigation may be necessary to defend the Company against alleged infringement of others' rights. Irrespective of the validity or the success of such claims, the defense of such claims could result in significant costs to the Company and the diversion of time and effort by management, either of which by itself could have a material adverse effect on the business, financial condition and results of operations of the Company. Further, adverse determinations in such litigation could subject the Company to significant liabilities (including treble damages under certain circumstances), or prevent the Company from selling certain of its products. If infringement claims are asserted against the Company, the Company may be forced to seek to obtain a license of such third party's intellectual property rights. No assurance can be given that the Company could enter into such a license agreement on terms favorable to the Company, or at all. The failure to obtain such a license agreement on reasonable terms could have an adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH MANUFACTURING

The Company's ability to manufacture optoelectronic subsystems as well as security and inspection products is dependent upon the optoelectronic devices manufactured at the Company's Hawthorne, California facility. In addition, the Company's success also depends on its ability to manufacture its products at its various other facilities. Accordingly, any material disruption in the operations of any of its manufacturing facilities, and especially at its Hawthorne, California facility, would have a material adverse effect on the Company's business, financial condition and results of operations. Such interruption or disruption could occur due to the unavailability of parts, labor or raw materials, to political unrest, or to natural disasters, such as earthquakes or fires. The Company also believes that its long-term competitive position depends in part on its ability to increase manufacturing capacity. No assurance can be given that the Company will be able to increase its manufacturing capabilities in the future. The failure of the Company to build or acquire sufficient additional manufacturing capacity if and when needed could adversely impact the Company's relationships with its customers and materially adversely affect the Company's business, financial condition and results of operations.

PRODUCT LIABILITY RISKS

The Company's business exposes it to potential product liability risks, particularly with respect to its security and inspection products. There are many factors beyond the control of the Company that could lead to liability claims, including the failure of the products in which the Company's subsystems are installed, the reliability of the customer's operators of the inspection equipment, and the maintenance of the inspection units by the customers. There can be no assurance that the amount of product liability insurance that the Company carries will be sufficient to protect the Company from product liability claims. A product liability claim in excess of the amount of insurance carried by the Company could have a material adverse effect on the Company's business, financial condition and results of operations.

DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent upon the continuing contributions of its key management, technical and product development personnel. In particular, the Company is dependent upon the services of Deepak Chopra, the Chairman of the Company's Board of Directors, its President and Chief Executive Officer. In addition, the loss of the services of any of the Company's other senior managerial, technical or product development personnel could materially adversely affect the Company's business, financial condition and results of operations. The Company has entered into a five-year employment agreement with Mr. Chopra and maintains a \$13.0 million policy of key man life insurance on the life of Mr. Chopra. The Company has also entered into shorter-term employment agreements with certain of the Company's senior managerial and technical personnel but does not maintain key man insurance policies on any of its other employees. The

Company's future success depends on its continuing ability to attract, retain and motivate highly qualified managerial and technical personnel. Competition for qualified technical personnel is intense. There can be no assurance that these individuals will continue employment with the Company. The loss of certain key personnel could materially adversely affect the Company's business, financial condition and results of operations. See "Business--Employees" and "Management."

ENVIRONMENTAL REGULATION

The Company is subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling and disposal of certain hazardous substances and wastes used or generated in the manufacturing and assembly of the Company's products. Under such laws, the Company may become liable for the costs of removal or remediation of certain hazardous substances or wastes that have been or are being disposed of offsite as wastes or that have been or are being released on or in its facilities. Such laws may impose liability without regard to whether the Company knew of, or caused, the release of such hazardous substances or wastes. The Company believes that it is currently in compliance with all material environmental regulations in connection with its manufacturing operations, that it has obtained all necessary material environmental permits to conduct its business and has no knowledge of any offsite disposal or releases on site that could have a material adverse effect on the Company. However, there can be no assurance that any environmental assessments undertaken by the Company with respect to its facilities have revealed all potential environmental liabilities, that any prior operator of the properties did not create any material environmental condition not known to the Company, or that an environmental condition that could result in penalties, expenses, or liability for the Company does not otherwise exist in any one or more of the facilities. In addition, the amount of hazardous substances or wastes produced or generated by the Company may increase in the future depending on changes in the Company's operations. Any failure by the Company to comply with present or future regulations could subject the Company to the imposition of substantial fines, suspension of production, alteration of manufacturing processes or cessation of operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. Compliance with such regulations could require the Company to acquire expensive remediation equipment or to incur substantial expenses. Any failure of the Company to control or properly manage the use, disposal, removal or storage of, or to adequately restrict the discharge of, or assist in the cleanup of, hazardous or toxic substances, could subject the Company to significant liabilities, including joint and several and retroactive liability under certain statutes. Furthermore, the presence of hazardous substances on a property or at certain offsite locations could result in the Company incurring substantial liabilities as a result of a claim by a private third party for personal injury or a claim by an adjacent property owner for property damage. The imposition of any of the foregoing liabilities could materially adversely affect the Company's business, financial condition and results of operations. See "Business--Environmental Regulations."

CONCENTRATION OF OWNERSHIP; CONTROL BY MANAGEMENT

Upon successful completion of this Offering, the Company's principal shareholders, Scope Industries and Deepak Chopra, the President and Chief Executive Officer of the Company, will beneficially own approximately 18.2% and 16.2%, respectively, of the Company's Common Stock (17.3% and 14.2%, respectively, if the Underwriters' over-allotment option is exercised in full), and the present directors and executive officers of the Company (including Scope Industries, an affiliate of one of the directors) will, in the aggregate, beneficially own 41.7% of the outstanding Common Stock (37.7% if the Underwriters' over-allotment option is exercised in full). Meyer Luskin, the President, Chief Executive Officer, Chairman of the Board of Directors and principal shareholder of Scope Industries, is a director of the Company. Consequently, Scope Industries, together with the Company's directors and executive officers acting in concert, will have the ability to significantly affect the election of the Company's directors and have a significant effect on the outcome of corporate actions requiring shareholder approval. Such concentration may also have the effect of delaying or preventing a change of control of the Company. See "Principal and Selling Shareholders," and "Management."

POSSIBLE ADVERSE EFFECTS OF AUTHORIZATION OF PREFERRED STOCK; POTENTIAL ANTI-TAKEOVER PROVISIONS

The Company's Articles of Incorporation authorize the Company's Board of Directors to issue up to 10,000,000 shares of preferred stock in one or more series, to fix the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued shares of preferred stock, to fix the number of shares constituting any such series, and to fix the designation of any such series, without further vote or action by its shareholders. The terms of any series of preferred stock, which may include priority claims to assets and dividends and special voting rights, could adversely affect the rights of the holders of Common Stock and thereby reduce the value of the Common Stock. The Company has no present plans to issue shares of preferred stock. The issuance of preferred stock, coupled with the concentration of ownership in the directors and executive officers, could discourage certain types of transactions involving an actual or potential change in control of the Company, including transactions in which the holders of Common Stock might otherwise receive a premium for their shares over then current prices, otherwise dilute the rights of holders of Common Stock, and may limit the ability of such shareholders to cause or approve transactions which they may deem to be in their best interests, all of which could have a material adverse effect on the market price of the Common Stock offered hereby. See "Description of Capital Stock--Preferred Stock."

ABSENCE OF PRIOR PUBLIC MARKET AND POSSIBLE VOLATILITY OF STOCK PRICE; DILUTION

Prior to this Offering there has been no public market for the Common Stock. The Company has filed an application to have the Common Stock approved for quotation on the Nasdaq National Market. However, there can be no assurance that an active trading market for the Common Stock will develop or be sustained after the Offering. The initial public offering price will be determined through negotiations between the Company and the representatives of the Underwriters. See "Underwriting." Additionally, the market price of the Common Stock could be subject to significant fluctuations in response to variations in actual and anticipated quarterly operating results and other factors, including announcements of new products or technical innovations by the Company or its competitors. Further, investors participating in the Offering will incur immediate and substantial dilution in the net tangible book value of their shares. See "Dilution."

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of Common Stock in the public market following this Offering could have an adverse effect on the market price of the Common Stock. Upon completion of this Offering, the Company will have outstanding approximately 9,486,528 shares of Common Stock, of which 3,700,000 shares offered hereby (4,255,000 shares if the Underwriters' over-allotment option is exercised in full), will be freely tradeable without restriction or further registration under the Securities Act. The remaining 5,786,528 shares of Common Stock outstanding upon completion of this Offering are "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act ("Rule 144"). Pursuant to lock-up agreements between certain securityholders and representatives of the Underwriters, the securityholders have agreed not to sell approximately 5,761,000 shares of Common Stock (including any additional shares issued upon the exercise of any options) for 180 days following the date of this Prospectus. However, beginning 180 days after the date of this Prospectus, subject in certain cases to the volume restrictions of Rule 144, all 5,786,528 shares will become freely transferable and available for immediate sale in the public market. The existence of a large number of shares eligible for future sale could have an adverse impact on the Company's ability to raise additional equity capital or on the price at which such equity capital could be raised.

LIMITATION ON OFFICERS' AND DIRECTORS' LIABILITIES UNDER CALIFORNIA LAW

The Company's Articles of Incorporation provide that, pursuant to the California Corporations Code, the liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent permissible under California law. This is intended to eliminate the personal liability of a director for monetary damages in an action brought by, or in the right of, the Company for breach of a director's duties to the Company or its shareholders. This provision does not eliminate the directors' fiduciary duty and does not apply

for certain liabilities: (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) for acts or omissions that a director believes to be contrary to the best interest of the Company or its shareholders or that involve the absence of good faith on the part of the director; (iii) for any transaction from which a director derived an improper personal benefit; (iv) for acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders; (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders; (vi) with respect to certain transactions or the approval of transactions in which a director has a material financial interest; and (vii) expressly imposed by statute for approval of certain improper distributions to shareholders or certain loans or guarantees. See "Management--Limitation on Directors' Liability."

BROAD DISCRETION AS TO USE OF PROCEEDS

Of the net proceeds of this Offering to be received by the Company, approximately \$29.3 million or approximately 71.1% of the total estimated net proceeds has been generally allocated to increasing the Company's research and development activities, to enhancing the Company's sales and marketing capabilities, to pursuing possible acquisitions, and for working capital purposes. The amount of net proceeds allocated to each of these specific purposes has not been established and will, therefore, be used for these purposes as management may determine in its sole discretion without the need for shareholder approval with respect to any such allocation.

USE OF PROCEEDS

The net proceeds to the Company from its sale of 3,330,000 shares of Common Stock offered hereby at an assumed initial public offering price of \$13.50 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by the Company, are estimated to be approximately \$41.2 million. The Company will not receive any proceeds from the sale of shares of Common Stock by the Selling Shareholders. The Selling Shareholders who own the 370,000 shares to be sold in this Offering will bear their pro rata share of all expenses incurred in connection with this Offering.

The principal reasons for this Offering are to enable the Company to repay bank indebtedness, to increase the Company's research and development activities, to enhance its sales and marketing capabilities, to pursue possible acquisitions, and to increase the Company's funds available for general corporate purposes, including working capital purposes. Although a portion of the net proceeds may be used to pursue possible strategic acquisitions, the Company is not currently a party to any commitments or agreements, and is not currently involved in any negotiations with respect to any acquisitions. While the Company intends to use the net proceeds it receives from this Offering for the foregoing purposes, other than the repayment of indebtedness, the Company is currently unable to specifically allocate the net proceeds among the foregoing purposes. See "Risk Factors--Broad Discretion as to Use of Proceeds." The Company intends to repay a total of approximately \$11.9 million outstanding under various bank facilities as described below.

FACILITY	APPROXIMATE PRINCIPAL AMOUNT AT JUNE 30, 1997	RATE BASIS PER ANNUM(1)	RATE AT JUNE 30, 1997	MATURITY
Revolving Credit	\$5,077,000	Variable rate plus 0.25%	8.75%	November 1998
Term Loan	2,344,000	Variable rate plus 0.50%	9.00%	March 2001
Revolving Credit	1,500,000	Variable rate plus 0.25%	8.75%	October 1997
Revolving Credit	963,000	Variable rate plus 1.85%	7.85%	December 1997
Revolving Credit	974,000	Variable rate plus 1.50%	10.00%	On demand
Term Loan	41,000	Variable rate plus 2.25%	10.75%	November 1997
Revolving Credit	586,000	Variable rate	6.65%	Evergreen
Term Loan	437,000	5.75%	5.75%	June 2001

(1) The term "variable rate" means the bank's prime rate or other published reference rate. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

Borrowings under the foregoing bank facilities are generally used for working capital purposes. However, in connection with the acquisition of AME earlier this year, the Company borrowed approximately \$900,000 under these facilities to pay the cash portion of the purchase price of that subsidiary.

The Company is also considering exercising its option to purchase its headquarters and its engineering and manufacturing facilities in Hawthorne, California. See "Business--Facilities." If the Company elects to purchase the facilities, it may use a portion of the proceeds of this Offering to pay part or all of the approximately \$3.0 million purchase price.

Pending the foregoing uses, the Company intends to invest the net proceeds of this Offering in short-term, interest bearing, investment-grade securities.

DIVIDEND POLICY

The Company currently anticipates that it will retain any available funds for use in the operation of its business, and does not currently intend to pay any cash dividends in the foreseeable future. Future cash dividends, if any, will be determined by the Board of Directors. The payment of cash dividends by the Company is restricted by certain of the Company's current bank credit facilities, and future borrowings may contain similar restrictions.

CAPITALIZATION

The following table sets forth as of June 30, 1997: (i) the actual short-term debt and capitalization of the Company; and (ii) the short-term debt and capitalization as adjusted to give effect to the sale of the 3,330,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of \$13.50 per share and the application of the estimated net proceeds from the Offering.

	JUNE 30, 1997	
	ACTUAL	AS ADJUSTED
	(In thousands)	
Short-term debt.....	\$10,340	\$ 465
	=====	=====
Long-term debt, less current portion.....	2,840	793
Shareholders' equity:		
Preferred Stock, no par value;		
10,000,000 shares authorized; none issued and		
outstanding.....	--	--
Common Stock, no par value(1)(2);		
40,000,000 shares authorized, actual and as		
adjusted;		
6,156,528 shares issued and outstanding, actual;		
9,486,528 issued and outstanding, as adjusted.....	7,367	48,575
Retained earnings.....	9,171	9,171
Cumulative foreign currency translation adjustment...	271	271
	-----	-----
Total shareholders' equity.....	16,809	58,017
	-----	-----
Total capitalization.....	\$19,649	\$58,810
	=====	=====

(1) Excludes 860,486 shares of Common Stock issuable upon exercise of outstanding stock options as of June 30, 1997.

(2) Includes 27,654 shares of Common Stock that are issuable as additional consideration for the Company's purchase in November 1996 of certain minority shareholdings in Rapisan U.S.A. See "Certain Transactions."

DILUTION

The net tangible book value of the Company at June 30, 1997, was \$14,707,000 or \$2.39 per share. Net tangible book value per share is determined by dividing the net tangible book value of the Company (total assets net of goodwill less total liabilities of the Company) by the number of shares of Common Stock outstanding. After giving effect to the sale of 3,330,000 shares offered by the Company hereby at an assumed initial public offering price of \$13.50 per share (after deduction of estimated underwriting discounts and commissions and estimated offering expenses), the pro forma net tangible book value of the Company as of June 30, 1997 would have been \$55,915,000, or \$5.89 per share. This represents an immediate increase in the net tangible book value of \$3.50 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of \$7.61 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price.....	\$13.50
Net tangible book value before Offering.....	\$2.39
Increase in net tangible book value attributable to this Offering.....	3.50

Pro forma net tangible book value after Offering.....	5.89

Dilution to new investors.....	\$ 7.61
	=====

The following table sets forth on a pro forma basis as of June 30, 1997, the number of shares of Common Stock purchased from the Company, the total consideration paid, and the average price per share paid by the existing shareholders and by purchasers of the shares of Common Stock offered hereby (assuming the sale of 3,330,000 shares by the Company at an assumed initial public offering price of \$13.50 per share, before deduction of underwriting discounts and commissions and offering expenses):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing shareholders..	6,156,528	64.9%	\$ 7,367,000	14.1%	\$ 1.20
New public investors...	3,330,000	35.1	44,955,000	85.9	\$13.50

Total.....	9,486,528	100.0%	\$52,322,000	100.0%	
	=====	=====	=====	=====	

As of the date of this Prospectus, there are outstanding options to purchase an aggregate of 860,486 of Common Stock at a weighted average exercise price of approximately \$7.34 per share. To the extent that options are exercised or additional shares are issued, there will be further dilution to new investors. See "Management--Stock Option Plans" and "Certain Transactions."

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth for the periods and the dates indicated certain financial data which should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere herein. The statement of operations data for each of the three fiscal years in the period ended June 30, 1997, and the balance sheet data at June 30, 1996 and 1997 are derived from the consolidated financial statements of the Company which have been audited by Deloitte & Touche, LLP, independent accountants, and are included elsewhere in this Prospectus. The statements of operations data for the years ended June 30, 1993 and 1994 and the balance sheet data at June 30, 1993, 1994 and 1995 are derived from audited financial statements not otherwise contained herein.

	YEAR ENDED JUNE 30,				
	1993	1994	1995	1996	1997
	(In thousands, except share and per share data)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenues.....	\$ 27,225	\$ 47,735	\$ 49,815	\$61,518	\$77,628
Cost of goods sold.....	20,591	36,037	37,818	45,486	56,174
Gross profit.....	6,634	11,698	11,997	16,032	21,454
Operating expenses:					
Selling, general and administrative(1).....	4,014	7,974	7,601	9,757	11,304
Research and development.....	1,034	1,451	1,591	1,663	2,504
Stock option compensation(2).....	--	--	--	--	856
Total operating expenses.....	5,048	9,425	9,192	11,420	14,664
Income from operations..	1,586	2,273	2,805	4,612	6,790
Interest expense.....	471	710	1,251	1,359	1,197
Income before income taxes and minority interest.....	1,115	1,563	1,554	3,253	5,593
Provision for income taxes.....	462	814	413	1,111	1,416
Income before minority interest.....	653	749	1,141	2,142	4,177
Minority interest.....	6	38	17	117	--
Net income.....	\$659	\$787	\$1,158	\$2,259	\$4,177
Net income available to common shareholders(3)(4).....	\$814	\$995	\$1,357	\$2,308	\$4,269
Net income per share(3)(4)(5).....	\$0.13	\$0.16	\$0.22	\$0.38	\$0.68
Weighted average shares outstanding(5).....	6,139,429	6,249,674	6,172,901	6,134,669	6,263,963

	JUNE 30,				
	1993	1994	1995	1996	1997
	(In thousands)				
CONSOLIDATED BALANCE SHEET DATA:					
Cash.....	\$941	\$625	\$1,405	\$581	\$553
Working capital.....	3,852	2,280	12,117	6,044	10,800
Total assets.....	15,739	25,807	30,780	35,309	47,333
Total debt.....	6,882	11,140	14,113	15,462	13,180
Total shareholders' equity.....	2,256	3,128	4,951	7,194	16,809

(1) Fiscal 1994 includes a one time charge of \$1.5 million incurred in connection with the settlement of a governmental proceeding. See "Business--Legal Proceedings."

(2) Represents a charge resulting from the acceleration of the vesting periods of outstanding stock options having exercise prices below the fair market value on the date of grant. The charge had the effect of decreasing income from operations, net income and net income available to common shareholders by \$856,000, \$514,000 and \$514,000, respectively.

(3) Gives effect to the conversion of certain subordinated debt into preferred stock and Common Stock in October and November 1996, and the issuance of

Common Stock for the purchase of the remaining minority interests in certain subsidiaries in October and December 1996 as if such transactions occurred on July 1, 1992. Adjustments in each of the five years ended June 30, 1997 consist of: (i) the elimination of interest expense related to converted subordinated debt of 161, 000, 246,000, 216,000, \$166,000 and \$92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of 6,000, 38,000, 17,000, \$117,000 and \$0, respectively.

- (4) Supplementary net income for each of the five years ended June 30, 1997 is \$936,000, \$1,163,000, \$1,939,000, \$2,913,000 and \$4,872,000, respectively, reflecting the reduction in interest expense, net of income taxes, from the effect of debt repayments discussed under "Use of Proceeds." Supplementary net income per share for the corresponding periods is \$0.15, \$0.18, \$0.28, \$0.42 and \$0.68, respectively, and reflects only the additional shares issued to repay that debt.
- (5) Assumes the conversion of 2,568,750 shares of preferred stock into 3,853,125 shares of Common Stock as of July 1, 1992. The preferred stock had a liquidation preference of \$1.00 per share, and was otherwise entitled to the same voting, dividend and all other rights as the Common Stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value added subsystems for OEMs for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In fiscal 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$42.9 million, or approximately 55.2% of the Company's revenues, while revenues from sales of security and inspection products amounted to \$34.7 million, or approximately 44.8% of the Company's revenues.

The Company was organized in May 1987. The Company's initial products were optoelectronic devices and subsystems sold to customers for use in the manufacture of x-ray scanners for carry-on airline baggage. In December 1987, the Company formed OSI Singapore to manufacture optoelectronic devices and subsystems. In April 1990, the Company acquired United Detector Technology's subsystem business. In February 1993, the Company acquired the Rapiscan UK security and inspection operations and, through Rapiscan U.S.A., commenced its operations as a provider of security and inspection products in the United States. In April 1993, the Company acquired Ferson, a U.S. manufacturer of passive optic components. In July 1994, the Company established OSI Malaysia to manufacture optoelectronic subsystems as well as security and inspection products. In March 1997, the Company acquired AME for the purpose of broadening its optoelectronic subsystem business in Europe. The Company currently owns all of the outstanding shares of each of these companies.

In January 1994 the Company entered into a joint venture agreement with Electronics Corporation of India, Limited ("ECIL"), an unaffiliated Indian corporation, pursuant to which the Company and ECIL formed ECIL-Rapiscan Security Products Limited ("ECIL Rapiscan"). The joint venture was established for the purpose of manufacturing security and inspection products in India from kits sold to ECIL by the Company. The Company currently owns a 36.0% interest in ECIL Rapiscan.

The Company engages in significant international operations. The Company currently manufactures its optoelectronic devices and subsystems at its facilities in Hawthorne, California, in Ocean Springs, Mississippi, in Johor Bahru, Malaysia, and in Horten, Norway. Its security and inspection products are manufactured at its facilities in Crawley, England, in Long Beach, California, and in Johor Bahru, Malaysia. As of June 30, 1997, the Company markets its products worldwide through approximately 42 sales and marketing employees located in five countries, and through approximately 95 independent sales representatives. Revenues from shipments made outside of the United States accounted for 32.0%, 38.0%, and 42.2% of revenues for the fiscal years 1995, 1996 and 1997, respectively. Information regarding the Company's operating income or loss and identifiable assets attributable to each of the Company's geographic areas is set forth in Note 14 in the Company's Consolidated Financial Statements.

The effective income tax rate for the Company for fiscal 1995, 1996 and 1997 was 26.6%, 34.2% and 25.3%, respectively. Certain products manufactured in the United States and sold overseas are sold through a Foreign Sales Corporation ("FSC") organized by the Company in 1990. Export sales made through the FSC are subject to federal tax advantages. If the tax advantages derived from sales made through the FSC and certain existing state and federal tax credits remain in effect, and if certain future foreign tax benefits are received as anticipated, the Company believes that its effective income tax rate will be below 32.0% during the next three fiscal years.

The Company's products currently address two principal markets. The Company's optoelectronic devices and subsystems are designed and manufactured primarily for sale to OEMs, while the Company's security and inspection products are sold to end-users. Two principal customers of the Company's optoelectronic devices and subsystems are the Company's Rapiscan UK and Rapiscan U.S.A. subsidiaries. Revenues from the sale of the Company's optoelectronic devices and subsystems to these two subsidiaries are eliminated from the Company's reported revenues. Revenues from the Company's principal markets and intercompany eliminations are presented in the table below.

	YEAR ENDED JUNE 30,			
	1994	1995	1996	1997
	(In thousands)			
Optoelectronic devices and subsystems.....	\$34,729	\$37,977	\$45,007	\$51,554
(Inter-company eliminations).....	(1,257)	(1,529)	(6,392)	(8,675)
Unaffiliated optoelectronic devices and subsystems	33,472	36,448	38,615	42,879
Security and inspection products.....	14,263	13,367	22,903	34,749
Total revenues.....	\$47,735	\$49,815	\$61,518	\$77,628

In recent years, the Company has experienced increased revenues from its security and inspection products, both in absolute dollars and as a percentage of total Company revenues, a trend which the Company believes will continue. The Company has recently initiated a program to produce larger security and inspection products, including those for use in inspecting cargo, which products are likely to have significantly higher selling prices than most of the Company's products sold to date. Sales of products with higher average selling prices may increase fluctuations in the Company's quarterly revenues and earnings.

The Company recognizes revenues upon shipment. As the Company's product offerings change to include sales of significantly larger systems, such as cargo inspection products, the Company may adopt the percentage of completion method of revenue recognition for certain products.

RESULTS OF OPERATIONS

The following table sets forth certain income and expenditure items as a percentage of total revenues for the periods indicated:

	YEAR ENDED JUNE 30,			
	1994	1995	1996	1997
Revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of goods sold.....	75.5	75.9	73.9	72.4
Gross profit.....	24.5	24.1	26.1	27.6
Operating expenses:				
Selling, general and administrative.....	16.7	15.3	15.9	14.6
Research and development.....	3.0	3.2	2.7	3.2
Stock option compensation.....	--	--	--	1.1
Total operating expenses.....	19.7	18.5	18.6	18.9
Income from operations.....	4.8	5.6	7.5	8.7
Interest expense.....	1.5	2.5	2.2	1.5
Income before income taxes and minority interest.....	3.3	3.1	5.3	7.2
Provision for income taxes.....	1.7	0.8	1.8	1.8
Income before minority interest.....	1.6	2.3	3.5	5.4
Minority interest.....	--	--	0.2	--
Net income.....	1.6%	2.3%	3.7%	5.4%

COMPARISON OF THE FISCAL YEAR ENDED JUNE 30, 1997 TO THE FISCAL YEAR ENDED
JUNE 30, 1996

Revenues. Revenues consist of sales of optoelectronic devices and subsystems as well as of security and inspection products. Revenues are recorded net of all inter-company eliminations. Revenues for the fiscal year ended June 30, 1997 increased by \$16.1 million, or 26.2%, to \$77.6 million from \$61.5 million for the fiscal year ended June 30, 1996. Revenues from the sale of optoelectronic devices and subsystems, net of inter-company eliminations, increased by \$4.3 million, or 11.0%, to \$42.9 million from \$38.6 million for fiscal 1996. The increase was the result of increased orders from existing customers, particularly in the medical diagnostics industry, and the expansion of the Company's product base. Revenues from the sale of security and inspection products increased by \$11.8 million, or 51.7%, to \$34.7 million from \$22.9 million for fiscal 1996. The increase was due mainly to the continued acceptance of the Rapiscan Series 500 EPX System, which was introduced in 1995, the growth in sales of the Rapiscan 119 tabletop model and the introduction of large cargo inspection machines.

Gross Profit. Cost of goods sold consists of material, labor and manufacturing overhead. Gross profit increased by \$5.4 million, or 33.8%, to \$21.5 million from \$16.0 million for fiscal 1996. As a percentage of revenues, gross profit increased to 27.6% in fiscal 1997 from 26.1% in fiscal 1996. Gross margin increased as a result of the fact that fixed costs did not increase proportionally with the increase in revenues. In addition, gross profit improved as a result of the Company continuing to increase the production of product manufactured at its offshore facilities, thereby capitalizing on lower labor and other manufacturing costs.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of compensation paid to sales, marketing, and administrative personnel, professional service fees, and marketing expenses. For fiscal 1997, such expenses increased by \$1.5 million, or 15.9%, to \$11.3 million from \$9.8 million in fiscal 1996. As a percentage of revenues, selling, general and administrative expenses decreased to 14.6% from 15.9%. The increase in expenses was due to increases in payroll expenses to support revenue growth as well as to increases in legal expenses.

Research and Development. Research and development expenses include research related to new product development and product enhancement expenditures. For fiscal 1997, such expenses increased by \$841,000, or 50.6%, to \$2.5 million from \$1.7 million in fiscal 1996. As a percentage of revenues, research and development expenses increased to 3.2% from 2.7%. The increase was due primarily to continued enhancement of the Rapiscan Series 500 EPX System and efforts to develop products for cargo scanning. In addition, the Company expensed all research and development expenses in the 1997 period as incurred, whereas certain of such expenses related to software products, the technological feasibility of which had been established, were capitalized in the 1996 period.

Income from Operations. Income from operations for fiscal 1997 increased by \$2.2 million, or 47.2%, to \$6.8 million from \$4.6 million for fiscal 1996. Excluding the non-recurring non-cash incentive compensation expense of \$856,000 incurred in connection with the acceleration of the vesting period of stock options granted to certain employees during fiscal 1997, income from operations increased by \$3.0 million, or 65.8%, to \$7.6 million from \$4.6 million. As a percent of revenues, income from operations increased to 8.7% from 7.5%, and excluding the non-cash compensation expense referenced above, it would have increased to 9.8% from 7.5%.

Interest Expense. Interest expense for fiscal 1997 decreased by \$162,000, or 11.9%, to \$1.2 million from \$1.4 million for fiscal 1996. As a percentage of revenues, interest expense decreased to 1.5% from 2.2%. The decrease was due to the conversion of the Company's subordinated debt to preferred and common stock during fiscal 1997, and to a decrease in the Company's borrowings outstanding under its lines of credit.

Provision for Income Taxes. Provision for income taxes for fiscal 1997 increased by \$305,000, or 27.5%, to \$1.4 million from \$1.1 million for fiscal 1996. As a percentage of income before provision for income taxes and minority interest, provision for income taxes decreased to 25.3% from 34.2% in fiscal 1996. The decrease was a result of increases in the Company's export sales through its FSC, which has the effect of reducing the tax rate on revenues from foreign sales made from the United States, and the increased utilization of research and development and certain state tax credits. In addition, the Company has made the California Waters Edge election under California tax law, which has the effect of exempting its foreign subsidiaries from California taxes through fiscal 2003.

Net Income. For the reasons outlined above, net income for fiscal 1997, increased \$1.9 million, or 84.9%, to \$4.2 million from \$2.3 million in fiscal 1996. The compensation charge described above, decreased net income by \$514,000 in fiscal 1997.

COMPARISON OF THE FISCAL YEAR ENDED JUNE 30, 1996 TO THE FISCAL YEAR ENDED JUNE 30, 1995

Revenues. Revenues for the fiscal year ended June 30, 1996 increased by \$11.7 million, or 23.5%, to \$61.5 million from \$49.8 million for the fiscal year ended June 30, 1995. Revenues from the sale of optoelectronic devices and subsystems, net of inter-company eliminations, increased by \$2.2 million, or 5.9%, to \$38.6 million from \$36.4 million for fiscal year 1995. The increase was the result of a 10.0% growth in sales of active optoelectronic devices and subsystems, offset in part by a decline in sales of lenses and other passive optic components. Revenues from the sale of security and inspection products increased by \$9.5 million, or 71.3%, to \$22.9 million from \$13.4 million in the comparable 1995 period. The increase was due mainly to the increased penetration of the U.S. security and inspection market and to larger shipments made to two international customers.

Gross Profit. Gross profit increased by \$4.0 million, or 33.6%, to \$16.0 million from \$12.0 million for fiscal 1995. As a percentage of revenues, gross profit increased to 26.1% from 24.1%. Gross margin increased as a result of the Company more fully realizing the benefits of having established a manufacturing facility in Malaysia in fiscal 1995, which had the effect of decreasing labor rates.

Selling, General and Administrative. Selling, general and administrative expenses increased by \$2.2 million, or 28.4%, to \$9.8 million from \$7.6 million for fiscal 1995. As a percentage of revenues, selling, general and administrative expenses increased to 15.9% from 15.3%. The increase in expenses was due to increases in sales and marketing activities to support the growth in sales of security and inspection products in the United States, as well as general increases in payroll and administration to support sales growth.

Research and Development. Research and development expenses increased by \$72,000, or 4.5%, to \$1.7 million from \$1.6 million for fiscal 1995. As a percentage of revenues, research and development expenses decreased to 2.7% from 3.2%, as increased research and development expenses related to security and inspection products were offset in part by decreases in such expenses related to optoelectronic products.

Income from Operations. Income from operations increased by \$1.8 million, or 64.4%, to \$4.6 million from \$2.8 million for fiscal 1995. As a percent of revenues, income from operations increased to 7.5% from 5.6%. The increase was due to the reasons outlined above, as both cost of goods sold and selling, general, and administrative expenses did not increase as much as revenues during the period.

Interest Expense. Interest expense increased by \$108,000, or 8.6%, to \$1.4 million from \$1.3 million for fiscal 1995. The increase was due to an increase in borrowings outstanding under the Company's line of credit. As a percentage of revenues, interest expense decreased to 2.2% from 2.5%.

Provision for Income Taxes. Provision for income taxes increased by \$698,000, or 169%, to \$1.1 million from \$413,000 in fiscal 1995. As a percentage of income before provision for income taxes and minority

interest, provision for income taxes increased to 34.2% in fiscal 1996 from 26.6% for the prior fiscal year. The increase resulted primarily from a reduction in certain state income tax credits, the repeal of the federal research and development credits, and a lower tax benefit from the Company's FSC in fiscal 1996.

Net Income. For the reasons outlined above, net income for the fiscal year ended June 30, 1996, increased \$1.1 million, or 95.1%, to \$2.3 million from \$1.2 million for fiscal 1995.

COMPARISON OF THE FISCAL YEAR ENDED JUNE 30, 1995 TO THE FISCAL YEAR ENDED JUNE 30, 1994

Revenues. Revenues for the fiscal year ended June 30, 1995 increased by \$2.1 million, or 4.4%, to \$49.8 million from \$47.7 million for the fiscal year ended June 30, 1994. Revenues from the sale of optoelectronic devices and subsystems, net of inter-company eliminations, increased by \$2.9 million, or 8.9%, to \$36.4 million from \$33.5 million in fiscal 1994. The increase was the result of increased sales of subsystems in most of the product markets served by the Company. Revenues from the sale of security and inspection products decreased by \$896,000, or 6.3%, to \$13.4 million from \$14.3 million in fiscal 1994. The decrease was due mainly to the shipment of large orders to customers in fiscal year 1994 that were not repeated in fiscal year 1995. Aside from the timing of these large order shipments, base business in security and inspection products in fiscal 1995 increased over the prior fiscal year.

Gross Profit. Gross profit increased by \$299,000, or 2.6%, to \$12.0 million from \$11.7 million for fiscal 1994. As a percentage of revenues, gross profit decreased to 24.1% from 24.5%. Gross margin decreased because of the start-up expenses associated with the opening of the Company's Malaysian manufacturing facility during fiscal 1995.

Selling, General and Administrative. Selling, general and administrative expenses decreased by \$373,000, or 4.7%, to \$7.6 million from \$8.0 million for fiscal 1994. As a percentage of revenues, selling, general and administrative expenses decreased to 15.3% from 16.7%. Excluding a \$1.5 million settlement with the U.S. government which occurred in fiscal 1994, selling, general, and administrative expenses increased by \$1.1 million, or 17.4%. See "Business--Legal Proceedings." Excluding this settlement, such expenses as a percentage of revenues would have increased during the year from 13.6% to 15.3%. The increase was due to increases in legal fees and other general increases associated with revenue growth.

Research and Development. Research and development expenses increased by \$140,000, or 9.6%, to \$1.6 million from \$1.5 million for fiscal 1994. As a percentage of revenues, research and development expenses increased to 3.2% from 3.0%. The increase in research and development expenses occurred primarily due to increased expenses related to the development of security and inspection products.

Income from Operations. Income from operations increased by \$532,000, or 23.4%, to \$2.8 million from \$2.3 million for fiscal 1994. As a percentage of revenues, income from operations increased to 5.6% from 4.8%. The increase was due to the decrease in selling, general, and administrative expenses in the context of modest revenue growth.

Interest Expense. Interest expense increased by \$541,000, or 76.2%, to \$1.3 million from \$710,000 in fiscal 1994. As a percentage of revenues, interest expense increased to 2.5% from 1.5%. The increase was due to increased borrowings under the Company's line of credit and interest on outstanding amounts owed under the government settlement.

Provision for Income Taxes. Provision for income taxes decreased by \$401,000, or 49.3%, to \$413,000 from \$814,000 in fiscal 1994. As a percentage of income before provision for income taxes and minority interest, provision for income taxes decreased to 26.6% from 52.1%. The decrease was principally the result of the non-deductible portion of the government settlement in fiscal 1994.

Net Income. For the reasons outlined above, net income for the fiscal year ended June 30, 1995 increased \$371,000, or 47.1%, to \$1.2 million from \$787,000 for fiscal 1994.

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain statement of operations data for the eight consecutive quarters in the period ended June 30, 1997. This data is unaudited but, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of this information in accordance with generally accepted accounting principles. The operating results for any quarter are not necessarily indicative of results for any future period or for the entire fiscal year.

	QUARTER ENDED							
	SEPT. 30, 1995	DEC. 31, 1995	MAR. 31, 1996	JUNE 30, 1996	SEPT. 30, 1996	DEC. 31, 1996	MAR. 31, 1997	JUNE 30, 1997
	(In thousands)							
Revenues.....	\$12,539	\$15,119	\$17,336	\$16,524	\$16,530	\$18,563	\$20,880	\$21,655
Cost of goods sold.....	9,657	11,382	12,599	11,848	11,884	13,286	15,210	15,794
Gross profit.....	2,882	3,737	4,737	4,676	4,646	5,277	5,670	5,861
Operating expenses:								
Selling, general and administrative.....	1,879	2,126	2,740	3,012	2,737	2,686	2,760	3,121
Research and development.....	419	408	453	383	517	636	584	767
Stock option compensation.....	--	--	--	--	--	--	856	-
Total operating expenses.....	2,298	2,534	3,193	3,395	3,254	3,322	4,200	3,888
Income from operations..	584	1,203	1,544	1,281	1,392	1,955	1,470	1,973
Interest expense.....	336	345	345	333	360	331	209	297
Income before income taxes and minority interest.....	248	858	1,199	948	1,032	1,624	1,261	1,676
Provision for income taxes.....	85	293	409	324	259	408	316	433
Income before minority interest.....	163	565	790	624	773	1,216	945	1,243
Minority interest.....	19	17	(8)	89	--	--	--	--
Net income.....	\$ 182	\$ 582	\$ 782	\$ 713	\$ 773	\$ 1,216	\$ 945	\$ 1,243

The following table sets forth, as a percentage of revenues, certain consolidated statements of operations data for the four quarters in each of fiscal years 1996 and 1997.

	QUARTER ENDED							
	SEPT. 30, 1995	DEC. 31, 1995	MAR. 31, 1996	JUNE 30, 1996	SEPT. 30, 1996	DEC. 31, 1996	MAR. 31, 1997	JUNE 30, 1997
Revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold.....	77.0	75.3	72.7	71.7	71.9	71.6	72.8	72.9
Gross profit.....	23.0	24.7	27.3	28.3	28.1	28.4	27.2	27.1
Operating expenses:								
Selling, general and administrative.....	15.0	14.1	15.8	18.2	16.6	14.5	13.2	14.4
Research and development.....	3.3	2.7	2.6	2.3	3.1	3.4	2.8	3.5
Stock option compensation.....	--	--	--	--	--	--	4.1	--
Total operating expenses.....	18.3	16.8	18.4	20.5	19.7	17.9	20.1	17.9
Income from operations..	4.7	7.9	8.9	7.8	8.4	10.5	7.1	9.2
Interest expense.....	2.7	2.3	2.0	2.0	2.2	1.8	1.0	1.4
Income before income taxes and minority interest.....	2.0	5.6	6.9	5.8	6.2	8.7	6.1	7.8
Provision for income taxes.....	.7	1.9	2.3	2.0	1.6	2.2	1.5	2.0
Income before minority interest.....	1.3	3.7	4.6	3.8	4.6	6.5	4.6	5.8
Minority interest.....	0.2	--	(0.1)	0.5	--	--	--	--
Net income.....	1.5%	3.7%	4.5%	4.3%	4.6%	6.5%	4.6%	5.8%
	=====	=====	=====	=====	=====	=====	=====	=====

The Company's quarterly operating results have varied in the past and are likely to vary significantly in the future. These quarterly fluctuations are the result of a number of factors, including the volume and timing of orders received and shipments made during the period, variations in the Company's product mix, changes in demand for the Company's products, the timing and amount of expenditures made by the Company in anticipation of future sales, variability in selling price, and other competitive conditions. The Company's revenues, particularly from the sale of security and inspection products, are increasingly dependent upon larger orders of multiple units and upon the sale of products having higher average selling prices. The Company is unable to predict the timing of the receipt of such orders and, as a result, significant variations between forecasts and actual orders will often occur. Furthermore, the rescheduling of the shipment of any large order, or portion thereof, or any production difficulties or delays experienced by the Company, could have a material adverse effect on the Company's quarterly operating results.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through cash provided by operations and through various term loans, discounting facilities, and revolving credit lines extended to its different subsidiaries worldwide. As of June 30, 1997, the Company's principal sources of liquidity consisted of \$553,000 in cash and several credit agreements described below.

The Company's operations provided net cash of \$3.4 million during fiscal 1997. For fiscal 1997, the amount of net cash provided by operations reflects adjustments for depreciation and amortization, the increase in accounts payable and accrued expenses and the increase in advances from customers, which is primarily attributable to advances received on a significant security and inspection product contract obtained in fiscal 1997. Net cash provided by operations was offset in part by increases in receivables and inventories.

Net cash used in investing activities was \$3.0 million and \$2.2 million in fiscal 1997 and 1996, respectively, in each case due primarily to purchases of property and equipment in the amount of approximately \$2.2 million and \$1.6 million, respectively. The Company expects to spend approximately \$2.0 million for purchases of property

and equipment in fiscal 1998. In addition, the Company may spend approximately \$3.0 million if it exercises its option to purchase its Hawthorne, California, facilities. The Company has no significant capital spending or purchase commitments other than normal purchase commitments and commitments under leases.

Net cash used in financing activities for fiscal 1997 was \$526,000 due primarily to the repayment of debt. Net cash provided by financing activities in fiscal 1996 was \$1.4 million due to increases in borrowings under the Company's lines of credit. The Company intends to use a portion of the net proceeds of this Offering to repay the amounts outstanding under the Company's lines of credit.

In January 1997, OSI Systems, Inc. and its three U.S. subsidiaries entered into a credit agreement with Sanwa Bank California. The agreement provides for a \$10.0 million line of credit, which includes revolving, letter of credit, acceptance and foreign exchange facilities. In addition, the Company has a \$1.0 million equipment line of credit for capital purchases. At the borrowers' election, advances under both lines of credit bear interest at a rate equal to a variable bank reference rate plus 0.25% per annum or, at the Company's option, at a fixed rate above LIBOR. At the borrowers' election, advances under the equipment purchase facility bear interest at a variable bank reference rate plus 0.25% per annum or a fixed rate quoted by the bank. The agreement also provides for a term loan in a maximum amount of \$2.5 million to refinance existing indebtedness. At the borrowers' election, the term loan may bear interest at a fixed or variable rate, as quoted by the bank. As of June 30, 1997, there was outstanding approximately \$5.1 million under the \$10.0 million line of credit, \$2.4 million under the term loan, and approximately \$154,000 under the letter of credit facility. As of June 30, 1997, there were no outstanding borrowings under the equipment line. Borrowings under the agreement are secured by liens on substantially all of the Company's assets. The agreement restricts the four borrowers from incurring certain additional indebtedness and from making capital expenditures greater than \$1.8 million in the U.S. in any fiscal year. In addition, the credit agreement currently requires that the Company at all times maintain (on a consolidated basis) a current ratio of not less than 1.2 to 1, a tangible net worth of at least \$11.0 million, a ratio of debt to tangible net worth of not more than 3.0 to 1, and a ratio of cash, cash equivalents and accounts receivable to current liabilities of not less than 0.6 to 1. The Company is currently in compliance with all of these financial conditions.

In November 1996, OSI Systems, Inc. and its three U.S. subsidiaries entered into an agreement with Wells Fargo HSBC Trade Bank, N.A. Under the agreement Wells Fargo will provide the four borrowers with a revolving credit line of up to a maximum of \$5.0 million to be used to pay obligations incurred in connection with export orders. The revolving credit lines bear interest at the bank's prime rate plus 0.25% per annum. Although the credit lines are scheduled to expire on October 27, 1997, the bank has informed the Company that, unless there is a material adverse change in the financial condition of the Company, the bank intends to extend the term of the credit lines for one additional year. As of June 30, 1997, there was outstanding approximately \$1.5 million under the facility. The agreement also provides for a letter of credit sub-facility up to an aggregate maximum of \$4.0 million to be used for standby letters of credit in support of bid and performance bonds associated with specific foreign contracts, of which \$1.9 million was used as of June 30, 1997. The facility terminates on October 27, 1997. Borrowings under the agreement are secured by liens on certain of the Company's assets. The agreement prohibits the Company from paying any dividends and restricts OSI Systems, Inc. and these subsidiaries from making capital expenditures greater than \$1.8 million in the U.S. in any fiscal year.

In December 1996, Midland Bank plc agreed to provide certain banking facilities to Rapiscan UK under two agreements. Under the first agreement, Midland agreed to provide Rapiscan UK with a pound sterling overdraft, maximum amount of 1.2 million pounds sterling (approximately \$2.1 million at June 30, 1997) outstanding at any one time, which amounts are secured by certain assets of Rapiscan UK. Outstanding borrowings will bear interest at a base rate plus 2.00% per annum. At June 30, 1997, no amounts were outstanding under the overdraft facility. The second agreement provides for a 750,000 pound sterling (approximately \$1.3 million as of June 30, 1997) facility for purchase of accounts receivable at 1.85% over a base rate and a 500,000 pound sterling (approximately \$832,000 as of June 30, 1997) facility for tender and

performance bonds. These facilities are secured by certain assets of Rapiscan UK and OSI Systems, Inc. has guaranteed Rapiscan UK's obligations under the performance bond facility. As of June 30, 1997, there was outstanding approximately \$963,000 under the line of credit and \$452,000 was outstanding under the performance bond facility. The above facilities expire in December and November 1997, respectively.

OSI Singapore has a loan agreement with Indian Bank (Singapore), which provides for an accounts receivable discounting facility for borrowings of up to 2.6 million Singapore dollars (approximately \$1.8 million at June 30, 1997). The agreement also provides for a term loan with borrowings of 434,000 Singapore dollars (approximately \$300,000 at June 30, 1997). Borrowings under the line of credit bear interest at the bank's prime rate plus 1.50%. The line of credit is terminable at any time. As of June 30, 1997 there was approximately \$974,000 outstanding under the line of credit and approximately \$41,000 was outstanding under the term loan. Borrowings under the line of credit are collateralized by certain assets of OSI Singapore. The borrowings under this line are guaranteed by Messrs. Chopra, Mehra and Hickman, officers of the Company. Borrowings secured by intercompany receivables are guaranteed by OSI Systems, Inc.

AME has a loan agreement with Christiania Bank OG Kreditkasse which provides for a revolving line of credit for borrowings of up to 5.0 million Norwegian krone (approximately \$682,000 at June 30, 1997), of which \$586,000 was outstanding as of June 30, 1997. Borrowings under the line of credit bear interest at an annual variable rate of 6.65%. The agreement also provides for a term loan which matures in June 2001 and bears interest at an annual rate of 5.75%. At June 30, 1997 outstanding term loan borrowings totalled approximately 3.2 million Norwegian krone (approximately \$437,000).

OSI Malaysia has a bank guarantee line of credit for 2.5 million Malaysian ringgits (approximately \$1,000,000) with the Hong Kong Bank Malaysia Berhad for performance bonds and standby letters of credit. This line expires in October 1997.

The Company believes that the net proceeds from this offering together with cash from operations, existing cash and lines of credit will be sufficient to meet its cash requirements for the foreseeable future.

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's operations in Singapore, Malaysia, England and Norway are maintained in Singapore dollars, Malaysian ringgits, U.K. pounds sterling and Norwegian krone, respectively. Foreign currency financial statements are translated into U.S. dollars at current rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of shareholder's equity. Transaction (losses) gains of approximately (\$19,000), \$76,000, (\$123,000) and \$68,000 were included in income for fiscal 1994, 1995, 1996 and 1997.

INFLATION

The Company does not believe that inflation has had a material impact on its results of operations.

BUSINESS

GENERAL

The Company is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for OEMs for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In fiscal 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$42.9 million, or approximately 55.2%, of the Company's revenues, while revenues from sales of security and inspection products amounted to \$34.7 million, or approximately 44.8% of the Company's revenues.

INDUSTRY OVERVIEW

The Company's products currently address two principal markets. The Company's optoelectronic devices and subsystems are designed and manufactured primarily for sale to OEMs, while the Company's security and inspection products are sold to end-users.

Optoelectronic Devices and Subsystems. Optoelectronic devices consist of both active components, such as silicon photodiodes, that sense light of varying wavelengths and convert the light detected into electronic signals, and passive components, such as lenses, prisms, filters and mirrors. An optoelectronic subsystem typically consists of one or more optoelectronic devices that are combined with other electronic components for integration into an end-product. Optoelectronic devices and subsystems are used for a wide variety of applications ranging from simple functions, such as the detection of paper in the print path of a laser printer, to complex monitoring, measurement or positioning functions, such as in industrial robotics where the subsystem is used to detect the exact position, motion or size of another object. Because optoelectronic devices and subsystems can be used in a wide variety of measurement, control and monitoring applications, optoelectronics may be used in a broad array of industrial applications.

The Company believes that in recent years advances in technology and reductions in the cost of key components of optoelectronic systems, including computer processing power and memory, have broadened the market by enabling the use of optoelectronic devices in a greater number of applications. In addition, the Company believes that there is a trend among OEMs to increasingly outsource the design and manufacture of optoelectronic subsystems to fully integrated, independent manufacturers who may have greater specialization, broader expertise, and the ability and flexibility to respond in shorter time periods than the OEM could accomplish in-house. The Company believes that its high level of vertical integration, substantial engineering resources, expertise in the use and application of optoelectronic technology, and low-cost international manufacturing operations enable it to effectively compete in the market for optoelectronic devices and subsystems.

Security and Inspection Products. A variety of products are currently used worldwide in security and inspection applications. These products include single energy x-ray equipment, dual energy x-ray equipment, trace detection systems that detect particulate and chemical traces of explosive materials, and CT scanners. To date, most of these products have been deployed primarily at commercial airports worldwide. The Company believes that the growth in the market for security and inspection products will continue to be driven by the increased perception of threat fueled by recent terrorist incidents, increased government mandates and appropriations, and the emergence of a growing market for the non-security applications of its products.

In the 1970s, principally in response to civilian airline hijackings, the U.S. Federal Aviation Administration ("FAA") established security standards by setting guidelines for the screening of carry-on baggage for weapons such as guns and knives. These standards were later mandated by the United Nations for adoption by all of its member states. The Company believes that to date the imposition of these standards has resulted in the installation of over 10,000 x-ray inspection systems installed in airports worldwide. Additionally, the United Kingdom Department of Transport has required the United Kingdom's commercial airports to deploy systems for 100% screening of international checked baggage by the end of 1998, and the European Civil Aviation Conference, an organization of 33 member states, has agreed to implement 100% screening of international checked baggage by the year 2000. In the United States, largely in response to the explosion of Pan Am Flight 103 in December 1988, Congress enacted the Aviation Security Improvement Act of 1990 which, among other initiatives, directed the FAA to establish and implement strict security measures and to deploy advanced technology for the detection of various contraband, including explosives, drugs, and currency. In July 1996, President Clinton formed the White House Commission on Aviation Safety and Security (the "Gore Commission"), to review airline and airport security and to oversee aviation safety. In response to the initial report released by the Gore Commission, the United States enacted legislation that includes \$144 million in appropriations for the initial deployment of advanced security and inspection technology at major U.S. airports.

X-ray inspection equipment, such as that sold by the Company, is also increasingly being used for a number of purposes not related to security. Newer versions of x-ray inspection equipment combine x-ray inspection with computer image enhancement capabilities and can be applied to various non-security purposes such as the detection of narcotics, gold and currency, the inspection of agricultural products, and the inspection of cargo by customs officers and international shippers. The Company believes that the market for cargo inspection systems will increase significantly in the future.

GROWTH STRATEGY

The Company's objectives are to be a leading provider of specialized optoelectronic products, to enhance its position in the international inspection and detection marketplace and to leverage its expertise in the optoelectronic technology industry by entering into new end-product markets on a selective basis. Key elements of this strategy include:

Leverage its Optoelectronic Design and Manufacturing Expertise to Address New Applications. The Company believes that one of its primary competitive strengths is its expertise in designing and manufacturing specialized optoelectronic subsystems for its OEM customers in a cost-effective manner. The Company currently designs and manufactures devices and subsystems for over 200 customers serving over 100 applications. The Company has developed this expertise in the past through internal research and development efforts and through selective acquisitions. In 1990, the Company acquired UDT Sensors to broaden its expertise and capabilities in developing and manufacturing optoelectronic devices and subsystems. Thereafter, in 1992, the Company acquired Ferson for its passive optic technologies, and AME in 1997 for AME's hybrid optoelectronic capabilities. The Company intends to continue to build this expertise in order to address a greater number of applications. By expanding the number of potential applications its products may serve, the Company intends to increase its business with existing customers and attract new customers.

Further Penetrate Existing Security and Inspection Markets and Expand into Other Markets. For the year ended June 30, 1997, approximately 27.3% of the Company's security and inspection products were sold to airports or airlines for security purposes, with the remainder of these products being sold to other facilities for both security and nonsecurity related purposes. The Company intends to continue to expand its sales and marketing efforts both domestically and internationally to capitalize on opportunities in its existing markets for new installations as well as on opportunities to replace, service and upgrade existing security installations. In addition, through research and development and selective acquisitions, the Company intends to enhance and expand its current product offering to better address new applications including automatic bomb detection and cargo scanning. The Company believes that this strategy will enable it to take advantage of the

growth its existing markets are experiencing and to benefit from additional growth that these new and enhanced products will provide. The Company believes that sales of its security and inspection products at locations other than at airports will constitute an increasingly larger portion of its sales in the future.

Capitalize on Vertical Integration. The Company believes it offers significant added value to its OEM customers by providing a full range of vertically integrated services including component design and customization, subsystem concept design and application engineering, product prototyping and development, and efficient pre-production, short-run and high volume manufacturing. The Company believes that its vertical integration differentiates it from many of its competitors and provides value to its OEM customers who can rely on the Company to be an integrated supplier of an optoelectronic subsystem. In addition, the Company's vertical integration provides several other advantages in both its optoelectronic devices and subsystems and security and detection product lines. These advantages include reduced manufacturing and delivery times, lower costs due to its access to competitive international labor markets and direct sourcing of raw materials, and superior quality control. The Company intends to continue to leverage its vertically integrated services to create greater value for its customers in the design and manufacturing of its products. The Company believes that this strategy better positions the Company for penetration into other end markets.

Capitalize on Global Presence. The Company operates in three locations in the United States, three in Europe and two in Asia. The Company views its international operations as providing an important strategic advantage over competitors in both the optoelectronic device and subsystem market and the security and inspection market for three primary reasons. First, international manufacturing facilities allow the Company to take advantage of competitive labor rates in order to be a low cost producer. Second, its international offices strengthen its sales and marketing efforts and its ability to maintain and repair its systems by providing direct access to growing foreign markets and to its existing international customer base. Third, multiple manufacturing locations allow the Company to reduce delivery times to its global customer base. In the future, the Company intends to develop new sources of manufacturing and sales capabilities to maintain and enhance the benefits of its international presence.

Selectively Enter New End Markets. The Company intends to selectively enter new end markets that complement its existing capabilities in designing, developing and manufacturing optoelectronic devices and subsystems. The Company believes that by manufacturing other end products which rely on the technological capabilities of the Company, it can leverage its existing integrated design and manufacturing infrastructure to capture greater margins and build a significant presence in new end markets which present attractive competitive market dynamics. The Company intends to achieve this strategy through internal growth or through selective acquisitions of end-product manufacturers.

PRODUCTS AND TECHNOLOGY

The Company designs, develops, manufactures and sells products based on its core optoelectronic technology. These products range from discrete devices to value-added subsystems to complete x-ray security and inspection products.

Discrete Devices and Subsystems. Optoelectronic devices generally consist of both active and passive components. Active components sense light of varying wavelengths and convert the light detected into electronic signals, whereas passive components amplify, separate or reflect light. Active components manufactured by the Company consist of silicon photodiodes and hybrid photodetectors. Passive components include lenses, prisms, filters, mirrors and other precision optical products that are used by the Company in the manufacture of its optoelectronic products or are sold to others for use in telescopes, laser printers, copiers, microscopes and other detection and vision equipment. The devices manufactured by the Company are both standard products and products customized for specific applications. Most of the devices manufactured by the Company are incorporated by it into the subsystems that it manufactures. The Company

does, however, also sell its discrete devices separately to OEMs. Direct sales of devices to third parties constituted less than 10.0% of the Company's revenues in fiscal 1997.

In addition to the manufacture of discrete devices, the Company also specializes in designing and manufacturing customized optoelectronic subsystems for use in a wide range of products and equipment. An optoelectronic subsystem typically consists of one or more optoelectronic devices that are combined with other electronic components and packaging for use in an end-product. The composition of a subsystem can range from a simple assembly of various optoelectronic devices that are incorporated into other subsystems (for example, a printed circuit board containing the Company's optoelectronic devices), to complete end-products (for example, medical pulse oximeter probes that are manufactured and packaged by the Company on behalf of the OEM customer and then shipped directly to the customer or the customer's distributors). Since the end of fiscal 1996, the Company has manufactured subsystems for a variety of applications, including the following: imaging electronics for medical CT scanners; disposable and reusable medical probes for use with medical pulse oximetry equipment; components and subsystems for laser gyroscopes used in military and commercial aviation; optoelectronic subsystems for slot machines; laser subsystems in military helicopter gun sighting equipment; positioning subassemblies for computer peripheral equipment; alignment subsystems for laser heads in optical disc players; and ultra-violet fire detection subsystems for submarines and surface ships.

Security and Inspection Equipment. The Company manufactures and sells a range of security and inspection equipment that it markets under the "Rapiscan" brand name. To date, the security and inspection equipment has principally been used at airports to inspect carry-on and checked baggage for guns and knives. However, inspection products are increasingly being used for both security purposes at a wide range of facilities other than airports and for other non-security purposes. For fiscal years 1995, 1996, and 1997 approximately 28.7%, 33.1%, and 27.3% respectively, of the Company's security and inspection revenues were derived from the sale of inspection products to airlines and airports, and the balance of such revenues were derived from all other sales. The Company believes that sales of its inspection products for use at non-airport locations will constitute an increasingly larger portion of future revenues.

The Company's inspection and detection products combine the use of x-ray technology with the Company's core optoelectronic capabilities. The base models of its product line use single energy x-ray technology and are used for identifying weapons with distinct shapes, such as guns and knives. The Company's enhanced models combine dual- or multi-energy x-ray technology with computer enhanced imaging technology to facilitate the detection of materials such as explosives, narcotics, currency or other contraband. While all x-ray systems produce a two-dimensional image of the contents of the inspected material, the dual-energy x-ray systems also measure the x-ray absorption of the inspected materials' contents at two x-ray energies to determine the atomic number, mass and other characteristics of the object's contents. The different organic and non-organic substances in the inspected material are displayed in various colors. This information is then displayed to an operator of the inspection equipment who can identify and differentiate the objects in the inspected materials.

Currently, all of the Company's inspection products require an operator to monitor the images produced by the inspection equipment. Depending on the model, the Company's products permit the operator to inspect the contents of packages at varying image modes and magnifications. The images range from the monochrome and pseudo-color images produced by single x-ray imaging systems, to high resolution, multi-color images in the Company's computer enhanced dual-energy models. The Company believes that its Rapiscan 500 Series provides one of the highest quality images currently available in the x-ray security and inspection industry.

In order to monitor the performance of operators of the x-ray baggage screening systems that are used in the United States airports, the FAA has implemented a computer-based training and evaluation program known as the Screener Proficiency Evaluation And Reporting System ("SPEARS"). The Company's Rapiscan 500 Series EPX System is, to date, the only system that meets the FAA's SPEARS criteria. In order to test the proficiency and attentiveness of the operator, the Company's system is able to insert test threat images, such as weapons, into an actual parcel stream by use of computer images.

The following table sets forth certain information related to the standard security and inspection products currently offered by the Company. The Company does, however, also customize its standard products to suit specific applications and customer requirements:

MODEL (TECHNOLOGY)	APPLICATIONS	SELECTED INSTALLATIONS
Rapiscan 19 (single energy)	Inspection of incoming package	Embassies
Rapiscan 119 (single energy)		Post offices
		Courthouses
		High risk office buildings
		Manufacturing companies
Rapiscan 300 Series (160 kV x-ray source, single energy and dual energy)	Inspection of hand carried baggage	Airports
		Prisons
		Government buildings
		Nuclear facilities
Rapiscan 500 Series-Standard Tunnel (single view and dual view 160 kV x-ray source, single energy and dual energy)	Airport hand carried and checked baggage Pallet inspection Customs inspections Agriculture inspection	Airports Cruise ships Freight shippers Border crossings
Rapiscan 500 Series-Large Tunnel (single view and dual view 320-450 kV x-ray source)	Large pallet inspection Customs inspections	Airports Freight shippers Border crossings High risk seaport locations
Rapiscan 500 Series-Mobile Systems (x-ray van or trailer)	Mobile x-ray inspection	Conventions and special events Airports Customs inspections Border crossing

In addition to its x-ray security and inspection products, the Company also markets three models of an archway walk-through metal detector and two models of a hand-held metal detector. These products are used to detect metal weapons such as guns and knives and are installed at airports and other locations, including prisons and schools. During fiscal 1997, sales of the walk-through and hand-held metal detectors constituted 1.6% of the Company's revenues.

The Company's Rapiscan U.S.A. subsidiary has entered into a non-exclusive patent license agreement with EG&G Inc. Under the license, Rapiscan U.S.A. is permitted to make, use and sell or otherwise dispose of security and inspection products that use an x-ray line scan system for baggage inspection purposes covered by EG&G Inc.'s patent. The patent, which expires in 2000, does not affect sales of the Company's security and inspection products manufactured and sold outside of the United States.

MARKETS, CUSTOMERS AND APPLICATIONS

Optoelectronic Devices and Subsystems. The Company's optoelectronic devices and subsystems are used in a broad range of products by a variety of customers. The following chart illustrates, for the year ended June 30, 1997: (i) the major product categories for which the Company provided optoelectronic products; (ii) the percentage of revenues from the sale of optoelectronic devices and subsystems related to such categories; (iii) certain customers ("Major Customers") in each such category who purchased more than \$100,000 of optoelectronic products; and (iv) the total number of Major Customers in each such category. The Company expects that the list of product categories, the amount of business derived from each such product category, and the composition of its major customers will vary from period to period.

PRODUCT CATEGORY -----	PERCENTAGE OF OPTOELECTRONIC SALES -----	REPRESENTATIVE MAJOR CUSTOMERS -----	APPROXIMATE NUMBER OF MAJOR CUSTOMERS -----
Computed Tomography and X-Ray Imaging	21.4%	Picker International Hologic, Inc. InVision Technologies	7
Aerospace and Avionics	11.3%	Kearfott Guidance Honeywell Avionics Litton Systems	10
Medical Monitoring	11.1%	Datascope BioChem International Criticare Systems	8
Analytical and Medical Diagnostics Equipment	6.1%	Johnson & Johnson Leica Coulter Corporation	10
Office Automation and Computer Peripherals	7.3%	Xerox Eastman Kodak Dr. Johannes Heidenhain	8
Construction, Robotics and Industrial Automation	5.6%	3M Spectra Physics Baumer Electric	7
Military/Defense and Weapons Simulations	4.8%	Lockheed Martin (Loral) Hughes (HDOS) Texas Instruments	7
Colorometry and Particle Analyzers	0.9%	Coulter Electronics Accuracy Microsensors	2
Bar Code Scanners	2.4%	Symbol Technologies Intermec	2
Gaming Industry	1.9%	Bally Gaming Ardac, Inc.	2

Security and Inspection Products. Since entering the security and inspection products market in 1993, the Company has shipped over 2,000 units to over 50 countries. The Company has sold 10 or more of its security and inspection products, or more than \$100,000 of such products, in at least 26 countries. The following is a list of certain customers and/or installations that have purchased at least 10 units, or more than \$100,000, of the Company's security and inspection products since January 1993:

Nanjing Airport; People's Republic of China	Ukraine Airports; Ukraine
Prague Airport; Czech Republic	United Kingdom Prison System; United Kingdom
Gatwick Airport; England	American Airlines; U.S.A
Heathrow Airport; England	Continental Airlines; U.S.A
TNT Freight; England	Delta Airlines; U.S.A.
Finnish Customs; Finland	Federal Courthouses; U.S.A.
Malaysian Airport Board; Malaysia	Federal Reserve Bank; U.S.A.
New Zealand Customs; New Zealand	JFK International Terminal; U.S.A.
Pakistan Airports; Pakistan	Los Angeles County Courthouse; U.S.A.
Doha International Airport; Qatar	Miami Airport; U.S.A.
HAI Terminal; Saudi Arabia	Orlando Airport; U.S.A.
Spanish Radio/Television; Spain	USAir; U.S.A.
Sri Lanka Government; Sri Lanka	Japanese Embassies; Worldwide
Dubai Airport; U.A.E.	

Because the market for most security and inspection products developed in response to civilian airline hijackings, historically a large portion of the Company's security and inspection products were sold for use at airports. Recently, however, the Company's security and inspection products have been used for security purposes at locations other than airports, such as courthouses, government buildings, mail rooms, schools, prisons and at unique locations such as Buckingham Palace, England. In addition, the Company's security and inspections products are increasingly being used for non-security purposes, such as for cargo inspection to detect narcotics and contraband, prevention of pilferage at semiconductor manufacturing facilities, quality assurance for agricultural products, and the detection of gold and currency.

MARKETING, SALES AND SERVICE

The Company markets and sells its optoelectronic devices and subsystems worldwide through both a direct sales and marketing staff of 23 employees and indirectly through a network of approximately 23 independent sales representatives and distributors, as of June 30, 1997. Most of the in-house sales staff is based in the United States while most of the independent sales representatives and distributors are located abroad. Since the acquisition of AME in March 1997, the Company's marketing efforts in Europe have been conducted through AME's sales and marketing staff and through a network of approximately four independent sales representatives. The Company markets and sells its security and inspection products worldwide through a direct sales and marketing staff of approximately 19 employees located in the United States, the United Kingdom, Dubai, and Malaysia and through a network of over 72 independent sales representatives, as of June 30, 1997. Following this Offering, the Company intends to expand its direct sales force.

The Company's optoelectronic products sales staff located in the United States and Norway is supported by an applications engineering group whose members are available to provide technical support. This support includes designing applications, providing custom tooling and process integration, defining solutions for customers and developing products that meet customer defined specifications. The security and inspection

products sales staff is supported by a service organization of approximately 23 persons, as of June 30, 1997, located primarily in the United States, the United Kingdom and Malaysia. The Company also supports these sales and customer relations efforts by providing operator training, computerized training and testing equipment, in-country service, software upgrades, service training for customer technicians and a newsletter on security issues.

The Company considers its maintenance service operations to be an important element of its business. After the expiration of the standard one-year product warranty period, the Company is often engaged by its customers to provide maintenance services for its security and inspection products through annual maintenance contracts. The Company believes that its international maintenance service capabilities give it a competitive advantage in selling its security and inspection products. Furthermore, the Company believes that as its installed base of security and inspection products increases, revenues generated from such annual maintenance service contracts and from the sale of replacement parts will increase. In fiscal 1996 and 1997, maintenance service revenues and replacement part sales collectively represented 3.3% and 3.6%, respectively, of the Company's revenues.

RESEARCH AND DEVELOPMENT

The Company's components and optoelectronic subsystems are designed and engineered at the Company's offices in either Hawthorne, California, or Horten, Norway. The subsystems that the Company manufactures are engineered by the Company to solve specific application needs of its OEM customers. The Company's customers typically request that the Company design custom optoelectronic solutions for their specific needs when standard components or subsystems are not available from other manufacturers of optoelectronic devices. After an end-product has been conceptualized by the OEM, the Company normally will involve its engineers to design the application, to establish the mechanical specifications for the application, to create the appropriate subsystem architecture for the application, and to design the development, production, and assembly process for the manufacture of the ultimate subsystem. However, because the Company has the engineering, tooling and manufacturing capabilities to design and manufacture entire subsystems, and not just a specific component, the Company typically also designs, manufactures and assembles the entire subsystem for the customer. Because the Company's engineers are able to provide additional value and services to its customers through the entire production process from concept to completion, the Company considers its engineering personnel to be an important extension of its core sales and marketing effort.

In addition to close collaboration with the Company's customers in the design and development of optoelectronics-based products, the Company maintains an active program for the development and introduction of new products and enhancements and improvements to its existing products, including the implementation of new applications of its technology. The Company seeks to further develop its research and development program and considers such program to be an important element of its business and operations. As of June 30, 1997, in addition to the engineers that the Company employed in manufacturing, process design and applications development, the Company engaged approximately 33 full-time engineers and technicians in research and development. During the fiscal 1994, 1995, 1996 and 1997, the Company's research and development expenses were approximately \$1.5 million, \$1.6 million, \$1.7 million and \$2.5 million, respectively. In order to fulfill its strategy of increasing its security and inspection product lines and of enhancing the capabilities of its existing products, the Company intends to increase its research and development efforts in the future.

MANUFACTURING AND MATERIALS MANAGEMENT

The Company currently has manufacturing facilities in the United Kingdom, Malaysia and Norway in addition to its manufacturing facilities in Hawthorne, California, Long Beach, California, and Ocean Springs, Mississippi. The Company's principal manufacturing facility is in Hawthorne, California. However, most of the Company's high volume, labor intensive manufacturing and assembly is generally performed at its facilities

in Malaysia. Since most of the Company's customers currently are located in Europe, Asia and the United States, the Company's ability to assemble its products in these markets and provide follow-on service from offices located in these regions is an important component of the Company's global strategy.

The Company seeks to focus its subsystem manufacturing resources on its core competencies that enable it to provide value-added enhancements and distinctive value. The Company believes that its manufacturing organization has expertise in optoelectronic, electrical and mechanical manufacturing and assembly of products for commercial applications and for high reliability applications. High reliability devices and subsystems are those which are designed, manufactured, screened and qualified to function under exceptionally severe levels of environmental stress. See "Legal Proceedings." The manufacturing techniques include silicon wafer processing and fabrication, manufacture and assembly of photodiodes, SMT (surface mounting) and manual thru-hole assembly, thick-film ceramic processing, wire bonding, molding, assembly of components, testing, and packaging. The Company also has the ability to manufacture plastic parts and certain other parts that are either not available from third party suppliers or that can be more efficiently or cost-effectively manufactured in-house. The Company outsources certain manufacturing operations including its sheet metal fabrication. The manufacturing process for components and subsystems consists of manual tasks performed by skilled and semi-skilled workers as well as automated tasks. The number of subsystems that the Company manufactures depends on the customers' needs and may range from a few subsystems (such as an optoelectronic sun sensor for use in a satellite) to many thousands (sensors used in laser printers and bar code readers).

The principal raw materials and subcomponents used in producing the Company's optoelectronic devices and subsystems consist of silicon wafers, ceramics, electronic subcomponents, light emitting diodes, phototransistors, printed circuit boards, headers and caps, housings, cables, filters and packaging materials. For cost, quality control and efficiency reasons, the Company generally purchases raw materials and subcomponents only from single vendors with whom the Company has on-going relationships. The Company does, however, qualify second sources for all of its raw materials and subcomponents, or has identified alternate sources of supply. The Company purchases the materials pursuant to purchase orders placed from time to time in the ordinary course of business with procurement commitment terms ranging from three months to one year at fixed costs but has no guaranteed long-term supply arrangements with such suppliers. The silicon-based optoelectronic devices manufactured by the Company are critical components in most of its subsystems. Since 1987, the Company has purchased substantially all of the silicon wafers it uses to manufacture its optoelectronics devices from Wacker Siltronic Corp. Although to date the Company has not experienced any significant shortages or material delays in obtaining any of its raw materials or subcomponents, there can be no assurance that the Company will not face such shortages or delays in one or more of these materials in the future. See "Risk Factors--Availability of Raw Materials and Components."

Substantially all of the optoelectronic subsystems, circuit boards and x-ray generators used in the Company's inspection and detection systems are manufactured in-house. The metal shells of the x-ray inspection systems, and certain standard mechanical parts are purchased from various third-party unaffiliated providers.

ENVIRONMENTAL REGULATIONS

The Company is subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling, and disposal of certain hazardous substances and wastes used or generated in the manufacturing and assembly of the Company's products. Under such laws, the Company may become liable for the costs of removal or remediation of certain hazardous substances that have been or are being released on or in its facilities or that have been or are being disposed of off site as wastes. Such laws may impose liability without regard to whether the Company knew of, or caused, the release of such hazardous substances. In the past, the Company has conducted a Phase I environmental assessment report for each of the properties in the United States at which it currently manufactures products. The purpose of each such report was to identify, as of the date of that report, potential sources of contamination of the property. In

certain cases, the Company has received a Phase II environmental assessment report consisting of further soil testing and other investigations deemed appropriate by an independent environmental consultant. The Company believes that it is currently in compliance with all material environmental regulations in connection with its manufacturing operations, and that it has obtained all environmental permits necessary to conduct its business. The amount of hazardous substances and wastes produced and generated by the Company may increase in the future depending on changes in the Company's operations. Any failure by the Company to comply with present or future regulations could subject the Company to the imposition of substantial fines, suspension of production, alteration of manufacturing process or cessation of operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. For a discussion of the risks imposed upon the Company's business by environmental regulations, see "Risk Factors--Environmental Regulation."

COMPETITION

The markets in which the Company operates are highly competitive and are characterized by evolving customers needs and rapid technological change. The Company competes with a number of other manufacturers, many of which have significantly greater financial, technical and marketing resources than the Company. In addition, these competitors may have the ability to respond more quickly to new or emerging technologies, may adapt more quickly to changes in customer requirements, may have stronger customer relationships, may have greater name recognition, and may devote greater resources to the development, promotion and sale of their products than the Company. There can be no assurance that the Company will be able to compete successfully against any current or future competitors in either the optoelectronic devices and subsystem markets or the security and inspection markets or that future competitive pressures will not materially and adversely affect its business, financial conditions and results of operations.

In the optoelectronic device and subsystem market, competition is based primarily on such factors as expertise in the design and development of optoelectronic devices, product quality, timeliness of delivery, price, customer technical support, and on the ability to provide fully integrated services from application development and design through volume subsystem production. The Company believes that its major competitors in the optoelectronic device and subsystem market are EG&G Electro-Optics, a division of EG&G, Inc., Optek Technology Inc., Hamamatsu Corporation, and Honeywell Optoelectronics, a division of Honeywell, Inc. Because the Company specializes in custom subsystems requiring a high degree of engineering expertise, the Company believes that it generally does not compete to any significant degree with any other large United States, European or Far Eastern manufacturers of standard optoelectronic components.

In the security and inspection market, competition is based primarily on such factors as product performance, functionality and quality, the over-all cost effectiveness of the system, prior customer relationships, technological capabilities of the products, price, local market presence, and breadth of sales and service organization. The Company believes that its principal competitors in the market for security and inspection products are EG&G Astrophysics, a division of EG&G, Inc., Heimann Systems GmbH, InVision Technologies, Inc., Vivid Technologies, American Science and Engineering, Inc., Barringer Technologies Inc., Control Screening L.L.C., and Thermedics Detection, Inc. Competition could result in price reductions, reduced margins, and loss of market share by the Company. In the airline and airport security and inspection market, particularly in the upgrade and replacement market, the Company also competes for potential customers based on existing relationships between its competitors and the customers. Certain of the Company's competitors have been manufacturing inspection systems since the 1980's and have established strong relationships with airlines and airport authorities. The Company believes that the image quality and resolution of certain of its security and inspection products is superior to the image quality offered by most of its competitors' x-ray based inspection products. Although the Company also has established relationships with a number of airport and airline customers, no assurance can be given that the Company will be able to successfully compete in the future with existing competitors or with new entrants.

BACKLOG

The Company measures its backlog as orders for which purchase orders or contracts have been signed, but which have not yet been shipped and for which revenues have not yet been recognized. The Company typically ships its optoelectronics devices and subsystems as well as its security and inspection products within one to three months after receiving an order. However, such shipments may be delayed for a variety of reasons including any special design or engineering requirements of the customer. In addition, large orders (more than 10 machines) of security and inspection products typically require more lead time. Large cargo scanning machines require six to twelve months lead time.

At June 30, 1997, the Company's backlog products totalled approximately \$52.7 million, compared to approximately \$30.0 million at June 30, 1996. Substantially all of the Company's backlog as of June 30, 1997 is expected to be shipped during the fiscal year ending June 30, 1998. Any failure of the Company to meet an agreed upon schedule could lead to the cancellation of the related order. Variations in the size of the order, the product mix, and delivery requirements of the customer order may result in substantial fluctuations in backlog from period to period. Backlog as of any particular date should not be relied upon as indicative of the Company's revenues for any future period and cannot be considered a meaningful indicator of the Company's performance on an annual or quarterly basis.

EMPLOYEES

As of June 30, 1997, the Company employed approximately 725 people, of whom 565 were employed in manufacturing, 33 in research and development, 62 in finance and administration, 42 in sales and marketing, and 23 in its service organization. Of the total employees, approximately 453 were employed in the United States, 109 were employed in Europe, 162 were employed in Asia, and one employee was employed in the Middle East. Nine employees at AME are members of a union and have collective bargaining rights. Other than the employees of AME, none of the Company's other employees are unionized. There has never been a work stoppage or strike at the Company, and management believes that its relations with its employees are good.

FACILITIES

The Company currently leases all of its facilities with remaining lease terms ranging from one to 14 years as reflected in the following table:

LOCATION	DESCRIPTION OF FACILITY	APPROXIMATE SQUARE FOOTAGE	LEASE EXPIRATION
Hawthorne, California	Executive offices, manufacturing, engineering, sales and marketing	61,700	2005
Long Beach, California	Manufacturing, engineering, sales and marketing and service	26,200	1998
Ocean Springs, Mississippi	Manufacturing, engineering and sales and marketing	41,800	2001
Johor Bahru, Malaysia	Manufacturing and sales	13,500	1997
Johor Bahru, Malaysia	Manufacturing	10,500	1998
Horten, Norway	Manufacturing, engineering, marketing and sales	18,200	1999
Singapore, Republic of Singapore	Administrative and materials procurement	3,000	2000
Crawley, United Kingdom	Manufacturing, engineering, sales and marketing	11,900	2011
Hayes, United Kingdom	Service	3,900	2003

The Company believes its facilities are in good condition and are adequate to support its operations for the foreseeable future. The Company currently anticipates that it will be able to renew the leases that are scheduled to expire in the next few years on terms substantially the same as currently in effect. However, even if the Company were not able to renew one or more of the leases, the Company believes that suitable substitute space is available to relocate any of the facilities where the lease is not renewed. Accordingly, the Company does not believe that its failure to renew any of the leases that are scheduled to expire in the next few years will have a material adverse effect on the Company's operations.

The Company has an option to purchase the Hawthorne, California, facility for a base price of approximately \$3.0 million. The option is exercisable by the Company upon prior written notice of six months to the landlord at any time during the term of the lease. After October 1999, the option purchase price will be increased each year by the percentage increase in the Consumer Price Index as calculated by the United States Department of Labor for urban consumers in the Los Angeles area. In addition to the option to purchase, the Company also has a right of first refusal to purchase the Hawthorne facility in the event that the landlord entertains a third party offer to buy the facility.

LEGAL PROCEEDINGS

On January 21, 1997, Rapiscan U.S.A. filed a complaint in the U.S. District Court for the Central District of California against Lunar in response to claims by Lunar that certain security inspection products produced by Rapiscan U.S.A. infringe the '688 patent, which patent is owned by UAB and licensed exclusively to Lunar. The complaint seeks a declaratory judgment that the products produced by Rapiscan U.S.A. do not infringe the '688 patent, that the '688 patent is invalid, and that the patent may not be enforced against Rapiscan U.S.A. for a number of equitable and legal reasons. The complaint also asserts related nonpatent claims including fraud and the breach of an oral agreement whereby Lunar would compensate Rapiscan U.S.A. for assisting Lunar in its enforcement of the '688 patent and seeks compensatory and punitive damages for these claims.

On January 23, 1997, Lunar and UAB, filed suit against OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors in the U.S. District Court for the Western District of Wisconsin. Lunar and UAB asserted patent infringement, contributory infringement and inducement thereof. Lunar and UAB seek damages in an unspecified amount and an injunction preventing OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors from further making, using, selling and offering for sale products including the dual energy detector allegedly covered by the '688 patent. The Wisconsin lawsuit has been transferred to the U.S. District Court for the Central District of California and has been consolidated with the lawsuit brought by Rapiscan U.S.A.

OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors moved for partial summary judgment on the scope of claims 38 and 39 of the '688 patent, which are presently the only claims being asserted by Lunar and UAB. In July 1997, the court granted the motion for partial summary judgment and ordered that (1) claim 38 is construed to require that the scintillator material of the first detector element is a different material than the scintillator material of the second element, (2) claim 38 is construed to require the use of an area beam, and (3) claim 39 is construed to require that the phosphor material and primary radiation absorber in the first detector element are different materials than the phosphor material and primary radiation absorber in the second detector element. The issue of whether claims 38 and 39, as now construed, can cover the Company's specific products was not before the court. However, because the Company's products use only the same scintillator materials and use only fan beams, the Company believes that the likelihood of Lunar and UAB prevailing in its patent infringement lawsuit against the Company is remote. The Company intends to continue its defense against Lunar's and UAB's claims and to vigorously pursue its claims against Lunar.

In October 1994, UDT Sensors, one of the Company's subsidiaries, entered into a Consent Judgment and a Criminal Plea and Sentencing Agreement (collectively, the "Consent Agreements") with the United States of America. The charges contained in the Consent Agreements relate to high-reliability optoelectronic subsystems that UDT Sensors manufactured for use in military aircraft, attack helicopters and submarines. In the Consent Agreements, UDT Sensors agreed that it had not tested 100% of these products as required by the applicable military specifications. Under the terms of the Consent Agreements, UDT Sensors agreed to pay a total of \$1.5 million, plus interest, in five annual installments ending on March 31, 1999. UDT Sensors was placed on probation for the five-year period ending March 31, 2000 with respect to sales of optoelectronic subsystems for use by the U.S. Department of Defense. Probation does not, however, prohibit UDT Sensors from selling optoelectronic products to the United States, and UDT Sensors has, since the date of the Consent Agreements, continued to manufacture and sell the same optoelectronic products for use in military aircraft, attack helicopters and submarines. In addition, in order to ensure that UDT Sensors complies with all Federal procurement laws, UDT Sensors agreed to implement programs and practices to establish and monitor complying contracting procedures, and agreed to file periodic reports evidencing such practices and programs.

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

The following sets forth certain information regarding the Company's executive officers and directors:

NAME ----	AGE ---	POSITION -----
Deepak Chopra.....	46	Chairman of the Board, Chief Executive Officer and President
Ajay Mehra.....	34	Vice President, Chief Financial Officer, Secretary and Director
Andreas F. Kotowski...	42	President of U.S. Operations, Rapiscan U.S.A.
Manoocher Mansouri Aliabadi.....	41	Vice President - Corporate Marketing, UDT Sensors
Anthony S. Crane.....	43	Managing Director, Rapiscan UK
Thomas K. Hickman.....	55	Managing Director, OSI Singapore and OSI Malaysia
Steven C. Good(1).....	55	Director
Meyer Luskin(1).....	71	Director
Madan G. Syal(1).....	71	Director

(1) Member of Audit Committee and Compensation Committee

Deepak Chopra is the founder of the Company and has served as President, Chief Executive Officer and Director since the Company's inception in May 1987. He has served as the Company's Chairman of the Board since February 1992. Mr. Chopra also serves as the President and Chief Executive Officer of the Company's major subsidiaries, including UDT Sensors, Rapiscan U.S.A., Rapiscan UK, OSI Singapore and Ferson Optics, Inc. From 1976 to 1979 and from 1980 to 1987, Mr. Chopra held various positions with ILC Technology, Inc. ("ILC"), a publicly-held manufacturer of lighting products, including serving as Chairman of the Board, Chief Executive Officer, President and Chief Operating Officer of its United Detector Technology Division. In 1990, the Company acquired certain assets of ILC's United Detector Technology Division. Mr. Chopra has held various positions with Intel Corporation, TRW Semiconductors and RCA Semiconductors. Mr. Chopra holds a B.S. in Electronics and a M.S. in Semiconductor Electronics. Messrs. Ajay Mehra and Madan G. Syal are the first cousin and father-in-law, respectively, of Mr. Chopra.

Ajay Mehra joined the Company as Controller in 1989, has served as Vice President and Chief Financial Officer since November 1992, and became Secretary and a Director in March 1996. Mr. Mehra also serves as Vice President and Chief Financial Officer of the Company's major subsidiaries including UDT Sensors, Rapiscan U.S.A., Rapiscan UK, OSI Singapore, and Ferson Optics, Inc. Prior to joining the Company, Mr. Mehra held various financial positions with Thermador/Waste King, a household appliance company, Presto Food Products, Inc. and United Detector Technology. Mr. Mehra holds a B.A. from the School of Business of the University of Massachusetts, Amherst, and a M.B.A from Pepperdine University. Mr. Deepak Chopra is the first cousin of Mr. Mehra.

Andreas F. Kotowski has served as the President of U.S. Operations, General Manager and a director of the Company's subsidiary, Rapiscan U.S.A., since January 1993. As General Manager of Rapiscan U.S.A., Mr. Kotowski is also responsible for the operations of Rapiscan UK, the subsidiary of Rapiscan U.S.A. From September 1989 to January 1993, Mr. Kotowski was self-employed as an Engineering Consultant providing technical and management consulting services to businesses in the explosive detection and medical imaging industries. In 1992, Mr. Kotowski was a director of Dextra Medical, Inc., a company that filed for bankruptcy in July of that year. From 1979 to 1989, Mr. Kotowski held various positions with EG&G Astrophysics, including Vice President of Engineering and Chief Engineer in which he was responsible for product planning, design, development and management. Prior to 1979, he worked as an Engineer at National

Semiconductor Corporation and the Jet Propulsion Laboratory. Mr. Kotowski holds a B.S. in Electrical Engineering and a B.S. in Physics from California State Polytechnic University, Pomona, and a M.S. in Electrical Engineering from Stanford University.

Manoocher Mansouri Aliabadi has served as Vice President of Corporate Marketing for the Company's UDT Sensors subsidiary since March 1994. From March 1992 to November 1993, Mr. Mansouri served as Director of Sales and Marketing for UDT Sensors, and from 1990 to 1992, as a Division Director of the Aerospace and Defense Division of UDT Sensors. Mr. Mansouri joined United Detector Technology, the predecessor of UDT Sensors in 1982 as an Engineer and holds a B.S. in Electrical Engineering from the University of California, Los Angeles.

Anthony S. Crane has served as Managing Director of the Company's subsidiary, Rapiscan UK, since March 1996. From March 1995 to March 1996, he served as Sales and Marketing Director for Rapiscan UK, and from February 1993 to March 1995, he served as Sales Director, Middle East, for Rapiscan UK. From November 1980 to January 1993, Mr. Crane held various positions at Rapiscan UK before it was acquired by the Company including Exports Business Manager, Sales Manager and Service Engineer. From May 1974 to November 1980, Mr. Crane served as Production Coordinator and Electrical and Electronic Inspector for Redifon Flight Simulation where he was responsible for production and customer relations.

Thomas K. Hickman has served as Managing Director of the Company's subsidiaries, OSI Singapore and OSI Malaysia, since July 1995 and as the Managing Director of Rapiscan Consortium (M) Sdn. Bhd. since its formation in October 1996. From July 1993 to July 1995, Mr. Hickman served as Vice President of Operations and Director of Operations for Rapiscan U.S.A. and Rapiscan UK, respectively. From November 1992 to July 1993, Mr. Hickman served as Director of Materials for UDT Sensors and, from July through November 1992, provided service as an independent consultant to UDT Sensors. From 1985 through 1992, Mr. Hickman held various positions at Mouse Systems Corporation, a manufacturer of computer optical mouse systems, including that of Director of OEM Operations, Purchasing Manager and Representative Director of a joint venture. Prior to 1985, Mr. Hickman was the Director of Materials for Measurex Corporation, the Representative Director for Hitachi-Singer Corp. and a Product Line Manager for Singer Business Machines. Mr. Hickman holds a B.A. from Stetson University and a M.B.A. from the University of San Francisco.

Steven C. Good has served as Director of the Company since September 1987. He is a Senior Partner in the accounting firm of Good Swartz & Berns, which he founded in 1974, and has been active in consulting and advisory services for businesses in various sectors including the manufacturing, garment, medical services and real estate development industries. Mr. Good is the founder and has served as Chairman of California United Bancorp, and was elected in 1997 as a Director of Arden Realty Group, Inc., a publicly-held Real Estate Investment Trust listed on the New York Stock Exchange. Mr. Good holds a B.S. in Business Administration from the University of California, Los Angeles.

Meyer Luskin has served as Director of the Company since February 1990. Since 1961 Mr. Luskin has served as the President, Chief Executive Officer and Chairman of the Board of Scope Industries, a publicly-held company listed on the American Stock Exchange and engaged in the business of recycling and processing food waste products into animal food. Mr. Luskin has also served as Director of Scope Industries since 1958 and currently serves as Director of Stamet, Inc., an industrial solid pump manufacturer. Mr. Luskin holds a B.A. from the University of California, Los Angeles, and a M.B.A. from Stanford University.

Madan G. Syal has served as Director of the Company since the Company's inception in May 1987. From May 1987 until February 1992, he served as Secretary of the Company. Mr. Syal is the sole proprietor of Pro Printers, a printing service business he founded in October 1984. Prior to 1984, Mr. Syal held various positions with Shell Oil Company, Exxon Corporation, Burmah Oil Company, C.F. Braun and Bechtel Group, Incorporated. Mr. Syal holds a B.S. from the American College in Lahore (now Pakistan) and a B.S.E. in Electrical and Mechanical Engineering from London University. Mr. Deepak Chopra is the son-in-law of Mr. Syal.

There are currently five members of the Board of Directors. After the completion of the Offering, the management of the Company intends to increase the number of independent directors of the Company by increasing the number of directors constituting the Board of Directors. No nominees for the additional Board seats have yet been identified. The Directors serve until the next annual meeting of shareholders or until successors are elected and qualified. The Company's executive officers are appointed by, and serve at the discretion of, the Board of Directors of the Company.

The Board of Directors has established an Audit Committee and a Compensation Committee. The functions of the Audit Committee include recommending to the Board the selection and retention of independent auditors, reviewing the scope of the annual audit undertaken by the Company's independent auditors and the progress and results of their work, and reviewing the financial statements of the Company and its internal accounting and auditing procedures. The functions of the Compensation Committee include establishing the compensation of the Chief Executive Officer, reviewing and approving executive compensation policies and practices, reviewing salaries and bonuses for certain executive officers of the Company, administering the Company's employee stock option plans, and considering such other matters as may, from time to time, be delegated to the Compensation Committee by the Board of Directors.

Each non-employee Director currently receives a cash fee of \$1,250 per Board meeting attended and an additional \$1,250 per Board committee meeting attended if such committee meeting is held on a day different from that of the Board meeting. During the fiscal year ended June 30, 1997, each non-employee Director received, as additional director compensation, options to purchase 5,000 shares of Common Stock at an exercise price of \$13.50 per share. The Directors are reimbursed for expenses incurred in connection with the performance of their services as Directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended June 30, 1997, all of the outside Directors, Steven C. Good, Meyer Luskin and Madan G. Syal, served on the Board's compensation committee. Certain transactions between the Company and the members of the compensation committee include the following: Mr. Good is a senior partner of Good Swartz & Berns, an accounting firm that provided services to the Company. The Good Swartz & Berns Pension & Profit Sharing Plan, in which Mr. Good participates, exercised certain warrants to purchase stock of the Company by applying the outstanding principal amount under certain promissory notes issued to the pension plan by the Company. Mr. Luskin is the President, Chief Executive Officer and Chairman of Scope Industries which provided consultation services to the Company for a fee in the amount of \$100,000. Scope Industries also exercised certain warrants to purchase stock of the Company by applying the outstanding principal amount under a promissory note issued by the Company to Scope Industries. Mr. Syal owns Pro Printers, a printing service company that provides printing services to the Company. For additional information regarding these direct or indirect transactions between the outside Directors, see "Certain Transactions." Mr. Syal is the father-in-law of Deepak Chopra, the President, Chief Executive Officer and Chairman of the Company.

The Company believes that each of the foregoing transactions was on terms at least as favorable to the Company as those that could have been obtained from nonaffiliated third parties. The Company currently intends that any future transactions with affiliates of the Company will be on terms at least as favorable to the Company as those that can be obtained from nonaffiliated third parties.

EXECUTIVE COMPENSATION

The following table sets forth certain compensation earned during the fiscal year ended June 30, 1997, by the Company's Chief Executive Officer and the four other most highly compensated executive officers whose total salary and bonus during such year exceeded \$100,000 (collectively, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION		LONG TERM COMPENSATION
	SALARY	BONUS	SECURITIES UNDERLYING OPTIONS (#)(2)
Deepak Chopra(1)..... Chief Executive Officer	\$370,843	\$175,000	137,500
Ajay Mehra Chief Financial Officer	172,216	58,040	73,750
Andreas F. Kotowski President of U.S. Operation, Rapiscan U.S.A.	124,452	10,000	57,029
Manoocher Mansouri Aliabadi..... Vice President--Corporate Marketing, UDT Sensors	110,019	28,000	15,000
Thomas K. Hickman Managing Director, OSI Malaysia and OSI Singapore	124,220	12,500	10,125

(1) The Company paid aggregate insurance premiums of approximately \$23,000 for two universal life insurance policies of Mr. Chopra. Mr. Chopra or his estate is obligated to repay to the Company all amounts paid by it on behalf of Mr. Chopra upon the death or termination of employment of Mr. Chopra. The value of such benefit is not susceptible to precise determination.

(2) For additional information see "Option Grants."

The Company has entered into an employment agreement with Deepak Chopra, with a term of five years commencing on April 1, 1997, pursuant to which he serves as President, Chief Executive Officer and Chairman of the Board of the Company. The employment agreement provides for a base salary of \$450,000 per year, with annual raises to be determined by the Compensation Committee. Pursuant to the employment agreement, Mr. Chopra is also entitled to receive at least one-third of the amount of the aggregate bonus pool established by the Company for its officers and employees. Mr. Chopra is eligible to participate in certain incentive compensation and other employee benefit plans established by the Company from time to time.

The Company has also entered into a three-year employment agreement with Ajay Mehra and a two-year employment agreement with Manoocher Mansouri Aliabadi, each of which became effective on April 1, 1997. The employment agreements provide for base salaries of \$200,000 and \$120,000 per year, for Messrs. Mehra and Mansouri, respectively, with annual raises to be determined by the Company's Chief Executive Officer. Pursuant to these employment agreements, Messrs. Mehra and Mansouri are also eligible for certain bonus payments and to participate in incentive compensation and other employee benefit plans established by the Company from time to time. Each of the employment agreements contains confidentiality provisions and provides that the employee shall assign and the Company shall be entitled to any inventions or other proprietary rights developed by the employee under certain circumstances during his employment.

Andreas F. Kotowski is currently employed by the Company pursuant to an employment agreement that is terminable by either party thereto at any time for any reason. Mr. Kotowski's current annual salary is \$140,000.

Thomas K. Hickman is currently employed by the Company pursuant to an employment agreement that may be terminated by either the Company or by Mr. Hickman upon six months prior notice. Under the employment agreement, Mr. Hickman's annual salary is \$125,000. In addition to the salary, the Company has agreed to pay certain relocation expenses related to Mr. Hickman's service in Singapore.

Anthony S. Crane is currently employed by the Company pursuant to an employment agreement with a term that ends in December 1998.

Pursuant to an incentive compensation agreement entered into in December 1996 by the Company and Andreas F. Kotowski, Mr. Kotowski is entitled to receive as additional incentive compensation, 10.0% of the consolidated pre-tax earnings of Rapiscan U.S.A. and Rapiscan UK in excess of certain pre-determined amounts. Such incentive compensation may not exceed \$150,000 for any fiscal year and is based on earnings of Rapiscan U.S.A. and Rapiscan UK for the 1997, 1998 and 1999 fiscal years. Mr. Kotowski was not entitled to receive such additional incentive compensation for the 1997 fiscal year.

The management of the Company allocates bonuses to officers and employees of the Company under a bonus plan that has been in effect since the Company's inception. The amount of bonus for each officer or employee is determined by comparing the profits of the subsidiary or division in which such person performed services against the budget profit goals for such subsidiary or division as determined before the start of the fiscal year. Bonuses were distributed to over 100 officers and employees in May and June 1997 based on their performances during the fiscal year ended June 30, 1997.

OPTION GRANTS

The following table sets forth certain information concerning grants of options to the Named Executive Officers during the year ended June 30, 1997:

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SHARE)	MARKET PRICE (\$/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)		
						0% (\$)	5% (\$)	10% (\$)
Deepak Chopra.....	37,500	5.7%	\$3.33	\$6.67	12/14/01	\$125,000	\$34,535	\$76,314
	100,000	15.3	13.50	N/A	5/31/02	N/A	372,980	824,189
Ajay Mehra(2).....	30,000	4.6	3.33	6.67	12/14/01	100,000	27,601	60,990
	10,000	1.5	13.50	N/A	5/31/02	N/A	37,298	82,419
	30,000	4.6	11.50	N/A	5/31/02	N/A	95,317	210,626
Andreas F. Kotowski(2)..	7,500	1.1	2.83	6.67	12/14/01	28,750	5,871	12,973
	20,000	3.1	11.50	N/A	5/31/02	N/A	63,545	140,417
Manoocher Mansouri Aliabadi(2).....	7,500	1.1	2.83	6.67	12/14/01	28,750	5,871	12,973
	7,500	1.1	11.50	N/A	5/31/02	N/A	23,829	52,656
Thomas K. Hickman(2)....	3,750	0.6	2.83	6.67	12/14/01	14,375	2,935	6,487
	6,000	0.9	11.50	N/A	5/31/02	N/A	19,063	42,125

(1) Sets forth potential option gains based on assumed annualized rates of stock price appreciation from the exercise price at the date of grant of 5.0% and 10.0% (compounded annually) over the full term of the grant with appreciation determined as of the expiration date. The 0.0%, 5.0% and 10.0% assumed rates of appreciation are mandated by the rules of the Securities and Exchange Commission, and do not represent the Company's estimate or projection of future Common Stock prices.

(2) Excludes options granted as consideration for the acquisition by the Company of the minority interests in Rapiscan U.S.A. See "Certain Transactions."

OPTION EXERCISES AND FISCAL YEAR-END VALUES

The following table sets forth certain information regarding option exercises by the Named Executive Officers during the fiscal year 1997 and held by them on June 30, 1997:

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR- END (#)		VALUE OF UNEXERCISED IN- THE-MONEY OPTIONS AT FISCAL YEAR END (\$)(1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Deepak Chopra.....	0	--	37,500	100,000	\$381,375	\$ 0
Ajay Mehra.....	9,000	\$107,100	75,000	40,000	814,500	60,000
Andreas F. Kotowski.....	0	--	7,500	20,000	80,025	40,000
Manoocher Mansouri						
Aliabadi.....	7,500	89,250	13,500	8,250	149,500	23,625
Thomas K. Hickman.....	9,750	109,925	15,187	14,813	174,648	109,600

(1) Amounts are shown as the positive spread between the exercise price and fair market value (based on an estimated initial offering price of \$13.50 per share).

STOCK OPTION PLANS

1987 Incentive Stock Option Plan. In May 1987, the Board of Directors adopted the Incentive Stock Option Plan (the "1987 Plan"). The 1987 Plan provides for the grant of options to directors, officers and other key employees of the Company to purchase up to an aggregate of 1,050,000 shares of Common Stock. The purpose of the 1987 Plan is to provide participants with incentives which will encourage them to acquire a proprietary interest in, and continue to provide services to, the Company. The 1987 Plan is administered by the Board of Directors which has discretion to select optionees and to establish the terms and conditions of each option, subject to the provisions of the 1987 Plan. Pursuant to the 1987 Plan, the Company has from time to time granted its directors, officers and employees options to purchase shares of the Company's Common Stock at exercise prices determined by the Board of Directors. The stock options generally expire either on the fifth or tenth anniversary of the date of grant of the option. All stock options are non-transferrable by the grantee and may be exercised only by the optionee during his service to the Company as a director, officer or employee. The aggregate number of options issuable under the 1987 Plan, number of options outstanding and the exercise price thereof are subject to adjustment in the case of certain transactions such as mergers, recapitalizations, stock splits or stock dividends. As of August 15, 1997, 384,375 shares had been issued upon the exercise of stock options under the 1987 Plan, stock options to purchase an aggregate of 426,000 shares were outstanding under the 1987 Plan at exercise prices ranging from \$0.17 to \$3.33 per share, and 239,625 shares remained available for grant. As of such date, stock options to purchase 385,313 shares of Common Stock were exercisable. No stock options may be granted under the 1987 Plan after December 31, 1998.

1997 Stock Option Plan. In May 1997, the Board of Directors adopted the Company's 1997 Stock Option Plan (the "1997 Plan"). The 1997 Plan, which was approved by the Company's shareholders in June 1997, provides for the grant of options to directors, officers, other employees and consultants of the Company to purchase up to an aggregate of 850,000 shares of Common Stock. No eligible person may be granted options during any 12-month period covering more than 425,000 shares of Common Stock. The purpose of the 1997 Plan is to provide participants with incentives which will encourage them to acquire a proprietary interest in, and continue to provide services to, the Company. The 1997 Plan is to be administered by the Board of Directors, or a committee of the Board, which has discretion to select optionees and to establish the terms and conditions of each option, subject to the provisions of the 1997 Plan. Options granted under the 1997 Plan may be "incentive stock options" as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or nonqualified options.

The exercise price of incentive stock options may not be less than 100% of the fair market value of Common Stock as of the date of grant (110% of the fair market value if the grant is to an employee who owns more than 10.0% of the total combined voting power of all classes of capital stock of the Company). The Code currently limits to \$100,000 the aggregate value of Common Stock that may be acquired in any one year pursuant to incentive stock options under the 1997 Plan or any other option plan adopted by the Company. Nonqualified options may be granted under the 1997 Plan at an exercise price of not less than 85.0% of the fair market value of the Common Stock on the date of grant. Nonqualified options may be granted without regard to any restriction on the amount of Common Stock that may be acquired pursuant to such options in any one year. Options may not be exercised more than ten years after the date of grant (five years after the date of grant if the grant is an incentive stock option to an employee who owns more than 10.0% of the total combined voting power of all classes of capital stock of the Company). Options granted under the 1997 Plan generally are nontransferable, but transfers may be permitted under certain circumstances in the discretion of the administrator. Shares subject to options that expire unexercised under the 1997 Plan will once again become available for future grant under the 1997 Plan. The number of options outstanding and the exercise price thereof are subject to adjustment in the case of certain transactions such as mergers, recapitalizations, stock splits or stock dividends. The 1997 Plan is effective for ten years, unless sooner terminated or suspended.

In May 1997, the Board of Directors of the Company authorized grants of options to purchase 434,486 shares of Common Stock available for issuance under the 1997 Plan to certain directors, officers and employees of the Company. Of these options, 125,000 are exercisable at a price of \$13.50 per share and 309,486 are exercisable at \$11.50 per share. The options generally will be subject to vesting and will become exercisable over a period of four years from the date of grant, subject to the optionee's continuing employment with the Company.

In general, upon termination of employment of an optionee, all options granted to such person which were not exercisable on the date of such termination will immediately terminate, and any options that are exercisable will terminate not more than three months (six months in the case of termination by reason of death or disability) following termination of employment.

To the extent nonqualified options are granted under the 1987 Plan and the 1997 Plan after the Offering, the Company intends to issue such options with an exercise price of not less than the market price of the Common Stock on the date of grant.

EMPLOYEE BENEFIT PLAN, PENSION PLANS

In 1991, the Company established a tax-qualified employee savings and retirement plan (the "401(k) Plan") covering all of its employees. Pursuant to the 401(k) Plan, employees may elect to reduce their current compensation by up to the annual limit prescribed by statute (\$9,500 in 1997) and contribute the amount of such reduction to the 401(k) Plan. The 401(k) Plan allows for matching contributions to the 401(k) Plan by the Company, such matching and the amount of such matching to be determined at the sole discretion of the Board of Directors. To date, no such matching contributions have been made with respect to the 401(k) Plan. The trustee under the 401(k) Plan, at the direction of each participant, invests the assets of the 401(k) Plan in numerous investment options. The 401(k) Plan is intended to qualify under Section 401 of the Code so that contributions by employees to the 401(k) Plan, and income earned on plan contributions, are not taxable until withdrawn, and so that the contributions by employees will be deductible by the Company when made.

Rapiscan UK and AME each have a pension plan in effect for certain of their employees. As of the date hereof, approximately 50 employees are covered by these plans.

LIMITATION ON DIRECTORS' LIABILITY

The Company's Articles of Incorporation ("Articles") provide that, pursuant to the California Corporations Code, the liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent permissible under California law. This is intended to eliminate the personal liability of a director for monetary damages in an action brought by, or in the right of, the Company for breach of a

director's duties to the Company or its shareholders. This provision in the Articles does not eliminate the directors' fiduciary duty and does not apply for certain liabilities: (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) for acts or omissions that a director believes to be contrary to the best interest of the Company or its shareholders or that involve the absence of good faith on the part of the director; (iii) for any transaction from which a director derived an improper personal benefit; (iv) for acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders; (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders; (vi) with respect to certain transactions or the approval of transactions in which a director has a material financial interest; and (vii) expressly imposed by statute for approval of certain improper distributions to shareholders or certain loans or guarantees. This provision also does not limit or eliminate the rights of the Company or any shareholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. The Company's Amended and Restated Bylaws require the Company to indemnify its officers and directors under certain circumstances. Among other things, the Bylaws require the Company to indemnify directors and officers against certain liabilities that may arise by reason of their status or service as directors and officers and allows the Company to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

The Company believes that it is the position of the Commission that insofar as the foregoing provision may be invoked to disclaim liability for damages arising under the Securities Act, the provision is against public policy as expressed in the Securities Act and is therefore unenforceable. Such limitation of liability also does not affect the availability of equitable remedies such as injunctive relief or rescission.

The Company intends to enter into indemnity agreements ("Indemnity Agreement(s)") with each of its directors and executive officers prior to the consummation of the Offering. Each such Indemnity Agreement will provide that the Company shall indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any civil or criminal action or administrative proceeding arising out of the performance of his duties as a director or officer. Such indemnification is available if the indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action, had no reasonable cause to believe his conduct was unlawful. The Indemnity Agreements will also require that the Company indemnify the director or executive officer in all cases to the fullest extent permitted by applicable law. Each Indemnity Agreement will permit the director or officer that is party thereto to bring suit to seek recovery of amounts due under the Indemnity Agreement and to recover the expenses of such a suit if he is successful. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. The Company believes that its Articles and Bylaw provisions are necessary to attract and retain qualified persons as directors and officers.

CERTAIN TRANSACTIONS

In 1993, the Company formed Rapiscan U.S.A. for the purpose of acquiring most of the capital stock of Rapiscan UK. As of October 1996, the Company owned 85.5% of the outstanding capital stock of Rapiscan U.S.A., and 14.5% (the "Option Shares") was owned by executive officers or employees of the Company, including Ajay Mehra, Andreas F. Kotowski, Anthony S. Crane and Thomas K. Hickman. See "Management--Executive Officers and Directors." In connection with the formation of Rapiscan U.S.A., the Company was granted an option to purchase all of the Option Shares. In November 1996, the Company exercised its option to acquire the Option Shares. The aggregate consideration paid for the Option Shares consisted of the following: (i) the issuance of a total of 159,201 shares of Common Stock valued at \$6.67 per share; (ii) the issuance of options to purchase a total of 45,486 shares of Common Stock at a purchase price of \$11.50 per share; and (iii) the issuance to the holders of the Option Shares of 27,654 additional shares of Common Stock which was based on the net income before taxes of Rapiscan U.S.A. and Rapiscan UK combined for the fiscal year ended June 30, 1997. The consideration paid by each of Messrs. Kotowski, Crane, Hickman and Mehra for their minority interests in Rapiscan U.S.A. was \$119,372, \$6,610, \$500 and \$125, respectively.

Until September 1996, the Company owned approximately 95.9% of the outstanding capital stock of Ferson Optics, Inc., and certain employees and officers of the Company, including Ajay Mehra and Thomas K. Hickman, the Managing Director of OSI Malaysia, owned the remaining shares. Mr. Mehra and Mr. Hickman acquired their minority interests in Ferson for \$250 and \$3,000, respectively. In September 1996, the Company purchased all of the remaining shares of Ferson from the minority shareholders in exchange for a total of 19,755 shares of Common Stock. The Common Stock was valued at \$6.67 per share. Ajay Mehra and Thomas K. Hickman received 12,500 and 750 shares of Common Stock, respectively, in connection with the foregoing exchange.

In June 1989, April 1990 and February 1993 the Company, as part of its plan of financing, issued subordinated promissory notes in the aggregate principal amounts of approximately \$385,000, \$3,520,000 and \$575,000, respectively, with related warrants or conversion rights to purchase capital stock of the Company. The purchasers of the subordinated notes included certain of the Company's directors, executive officers, principal shareholders and members of their families (collectively, the "Related Parties"). The June 1989 promissory notes bore interest at a fixed rate of 11.00% per annum while the April 1990 and February 1993 promissory notes bore interest at a variable rate based on certain banks' prime rate plus 1.50% per annum. The promissory notes, warrants and conversion rights provided that the note holders were entitled to exercise the warrants or convert the notes into capital stock of the Company by cancelling the appropriate amounts of the outstanding principal amount and accrued interest of such promissory notes. The exercise price of the warrants issued in June 1989 and April 1990 was \$1.33 per share, whereas the exercise price of the warrants and convertible notes issued in February 1993 was \$1.87 per share.

During fiscal 1995, 1996 and 1997, all amounts outstanding under the promissory notes were either paid in full by the Company to the note holders or applied towards the exercise of the related warrants or conversion rights at the election of the note holders. The Company paid in cash the outstanding principal amount of \$530,000 and all interest due thereon to one principal shareholder, Sally F. Chamberlain, in satisfaction of the promissory notes held by her personally and as trustee of the Edward P. Fleischer and Sally F. Fleischer Family Trust. The other Related Parties elected to exercise their warrants and conversion rights by purchasing the Company's capital stock with the outstanding principal amounts of their promissory notes. As a result, certain Related Parties who were collectively owed \$2,710,000 under the promissory notes, were issued an aggregate of 2,030,358 shares of Common Stock in lieu of the repayment of the principal amount of their promissory notes. Other Related Parties included Scope Industries, Ajay Mehra, members of Mr. Mehra's family, members of Mr. Chopra's family, and the Good Swartz & Berns Pension Fund. Scope Industries is a principal shareholder of the Company, and Meyer Luskin is a director of the Company and is the President, director and a major shareholder of Scope Industries. Steve C. Good is a director of the Company and a participant in the Good Swartz & Berns Pension Fund.

The Company, Mr. Chopra and Mr. Mehra, each currently owns a 36.0%, 10.5% and 4.5% interest, respectively, in ECIL Rapiscan. Mr. Chopra is the Chairman, President and Chief Executive Officer of the Company. The remaining 49.0% interest in ECIL Rapiscan is owned by ECIL, an unaffiliated Indian company. The Company sells the security and inspection kits to ECIL at a price no less favorable to the Company than the price the Company charges unaffiliated third parties for such products. To date the Company's portion of the earnings of ECIL Rapiscan have been insignificant.

Pursuant to a Consulting Agreement entered into in July 1996, the Company hired Scope Industries to provide planning and financial consulting services to the Company including advice regarding the valuation of the Company and certain of its subsidiaries. Upon the completion of the consulting services in December 1996, the Company paid Scope Industries a fee in the amount of \$100,000 as full payment for such services.

From time to time the Company contracts for automobile rental and messenger services from a business that is owned by Deepak Chopra and his wife. The Company paid the business approximately \$83,000 and \$111,000 for such services during fiscal 1996 and 1997, respectively. The Company also contracts for printing services from a business owned by Madan G. Syal, a director of the Company. The Company paid the business approximately \$63,000 and \$82,000 for such services during fiscal 1996 and 1997, respectively.

The Company believes that each of the foregoing transactions was on terms at least as favorable to the Company as those that could have been obtained from nonaffiliated third parties. The Company currently intends that any future transactions with affiliates of the Company will be on terms at least as favorable to the Company as those that can be obtained from nonaffiliated third parties.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth the beneficial ownership of Common Stock as of August 15, 1997, and as adjusted to reflect the sale of Common Stock offered hereby (assuming no exercise of the Underwriters' over-allotment option), by: (i) each person known by the Company to beneficially own 5.0% or more of the outstanding shares of Common Stock; (ii) each director of the Company; (iii) each Named Executive Officer of the Company; (iv) the Selling Shareholders; and (v) all directors and executive officers of the Company as a group. Footnotes (2) and (3) to the table also set forth certain information with respect to the beneficial ownership of the Selling Shareholders, assuming the Underwriters exercise their over-allotment option in full. The information set forth in the table and accompanying footnotes has been furnished by the named beneficial owners.

NAME AND BENEFICIAL OWNERS	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)		NUMBER OF SHARES BEING OFFERED(2)	SHARES BENEFICIALLY OWNED AFTER OFFERING(1)(3)	
	NUMBER	PERCENT		NUMBER	PERCENT
Scope Industries(4)(5).....	1,875,000	30.5%	148,148	1,726,852	18.2%
Sally F. Chamberlain(6)(7).....	1,170,375	19.0	63,343	1,107,032	11.7
Deepak Chopra(6)(8).....	1,539,484	24.9	0	1,539,484	16.2
Ajay Mehra(9).....	195,693	3.1	0	195,693	2.0
Andreas F. Kotowski(10).....	128,806	2.1	0	128,806	1.4
Manoocher Mansouri Aliabadi(11).....	73,607	1.2	0	73,607	*
Thomas K. Hickman(12).....	27,228	*	0	27,228	*
Steven C. Good(13).....	40,313	*	21,896	18,417	*
Madan G. Syal(14).....	243,938	4.0	25,926	218,012	2.3
Meyer Luskin(15).....	23,438	*	0	23,438	*
Good Swartz & Berns Pension & Profit Sharing Plan(16).....	148,125	2.4	3,000	145,125	1.5
Leila and Birinder Mehra.....	25,500	*	3,704	21,796	*
Zev and Elaine Edelstein Trust..	77,679	1.3	9,259	68,420	*
Mohinder Chopra.....	75,000	1.2	9,259	65,741	*
Glenn P. Sorenson.....	75,000	1.2	9,259	65,741	*
Charles and Kiran M. Kerpelman..	65,357	1.1	9,259	56,098	*
Martha B. Holmes.....	60,000	*	9,259	50,741	*
Combined TR/DR Account Trust....	52,500	*	7,407	45,093	*
Gary E. Fleischer.....	14,625	*	14,625	0	--
Cathleen A. Redinger.....	14,625	*	14,625	0	--
Mark and Penny Berns Trust.....	9,732	*	5,982	3,750	*
Arnold G. and Hope Anisgarten...	9,287	*	5,709	3,578	*
Rajiv Mehra.....	2,057	*	450	1,607	*
Surendra V. and Kala Jain(17)...	13,393	*	5,186	8,207	*
Renu Jivrajka.....	11,250	*	1,852	9,398	*
Amita Jivrajka.....	7,500	*	1,852	5,648	*
All executive officers and directors as a group (9 persons).....	2,286,136	36.4	47,822	2,238,314	23.3

* Less than 1.0%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to options currently exercisable, or exercisable within 60 days of August 15, 1997, are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.

- (2) Excludes shares of Common Stock to be offered by the Selling Shareholders if the over-allotment option granted to the Underwriters is exercised. The following Selling Shareholders will sell the following number of additional shares of Common Stock if the Underwriters' over-allotment option is exercised in full: Scope Industries (88,519); Sally F. Chamberlain (49,630); Deepak Chopra (185,185); Ajay Mehra (33,333); Andreas F. Kotowski (18,519); Manoocher Mansouri Aliabadi (14,815); Thomas K. Hickman (3,704); Steven C. Good (15,604); Madan G. Syal (18,519); Meyer Luskin (9,259); Good Swartz & Berns Pension & Profit Sharing Plan (3,309); Leila and Birender Mehra (3,704); Zev and Elaine Edelstein Trust (9,259); Mohinder Chopra (11,111); Glenn P. Sorenson (11,111); Charles and Kiran M. Kerpelman (9,259); Combined TR/DR Account Trust (7,407); Susan Sutherland (7,407); Anuj Wadhawan (7,407); Bette J. Moore (7,407); Robert W. Kephart (5,556); Phillip M. Wascher (7,407); Charan J. Dewan (3,704); Jack Kimbro (1,111); Narayan Taneja (1,481); Dennis Noble (741); Peter Bui (741); Alan J. and Pamela Barnard (1,481); Christine Williams (741); Christopher Chin (926); Anthony S. and Suzie B. Crane (1,481); Khai Le (741); Mark and Penny Berns Trust (1,518); Arnold G. and Hope Anisgarten (1,791); Surendra and Kala Jain (5,926); Neil Jivrajka (740); Renu Jivrajka (1,482); Amita Jivrajka (1,482); Louis S. and Linda O. Peters (741); Lincoln A. Gladden (741). Susan Sutherland, Anuj Wadhawan, Bette J. Moore, Robert W. Kephart, Phillip M. Wascher, Charan J. Dewan, Jack Kimbro, Narayan Taneja, Dennis Noble, Peter Bui, Alan J. Barnard, Christine Williams, Christopher Chin, Khai Le, Louis Peters and Lincoln A. Gladden are employees of the Company or its affiliates. Anthony S. Crane is the Managing Director of Rapiscan UK. See "Management."
- (3) Assuming the Underwriters' over-allotment option is exercised in full, the number and percent of the shares beneficially owned after the Offering by the Selling Shareholders will be as follows: Scope Industries (1,638,333, 17.3%); Sally F. Chamberlain 1,057,402, 11.1%); Deepak Chopra (1,354,299, 14.2%); Ajay Mehra (162,360, 1.7%); Andreas F. Kotowski 110,287, 1.2%); Manoocher Mansouri Aliabadi (58,792); Thomas K. Hickman (23,524) Steven C. Good (2,843); Madan G. Syal (199,493, 2.1%); Meyer Luskin (14,179); Good Swartz & Berns Pension & Profit Sharing Plan (141,816, 1.5%); Leila and Birender Mehra (18,092); Zev and Elaine Edelstein Trust (59,161); Mohinder Chopra (54,630); Glenn P. Sorenson (54,630); Charles and Kiran M. Kerpelman (46,839); Combined TR/DR Account Trust (37,686); Susan Sutherland (35,343); Anuj Wadhawan (29,835); BetteJ. Moore (28,218); Robert W. Kephart (22,944); Phillip M. Wascher (23,241); Charan J. Dewan (16,171); Jack Kimbro (15,389); Narayan Taneja (23,698); Dennis Noble (11,446); Peter Bui (7,884); Alan J. and Pamela Barnard (9,704); Christine Williams (6,384); Christopher Chin (6,199); Anthony S. and Suzie B. Crane (12,148); Khai Le (8,956); Mark and Penny Berns Trust (2,232); Arnold G. and Hope Anisgarten (1,787); Surendra and Kala Jain (2,281); Neil Jivrajka (10,510); Renu Jivrajka (7,916); Amita Jivrajka (4,166); Louis S. and Linda O. Peters (6,510); Lincoln A. Gladden (4,134). Except as otherwise indicated in this footnote the percentage of Common Stock beneficially owned by the Selling Shareholders after this Offering if the over-allotment option is exercised in full is less than 1.0% for each person listed in this footnote.
- (4) The address of Scope Industries is 233 Wilshire Boulevard, Suite 310, Santa Monica, California 90401.
- (5) Does not include shares beneficially owned by Meyer Luskin. Mr. Luskin is the President, Chief Executive Officer, Chairman of the Board and a principal shareholder of Scope Industries.
- (6) The address of such shareholder is c\\o OSI Systems, Inc., 12525 Chadron Avenue, Hawthorne, California 90250.
- (7) Such shares are held by Sally F. Chamberlain as Trustee of the Edward P. Fleischer and Sally F. Fleischer Family Trust dated June 3, 1991.
- (8) Includes 254,951 shares and 254,951 shares owned by The Deepika Chopra Trust UDT dated July 17, 1987 and The Chandini Chopra Trust UDT dated July 17, 1987, respectively. Deepak Chopra is the co-trustee of both irrevocable trusts. Also includes 10,179 shares and 10,179 shares owned by Deepika Chopra and Chandini Chopra, respectively, who are the daughters of Mr. Chopra. Of the balance of such shares, 960,099 shares are held jointly by Mr. Chopra and his wife, Nandini Chopra, and 49,125 shares are held individually by Mr. Chopra. 37,500 shares of the 49,125 shares are issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Chopra is the President, Chief Executive Officer and Chairman of the Board of the Company. See "Management."
- (9) Includes 75,000 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Mehra is the Vice President, Chief Financial Officer, Secretary and Director of the Company. See "Management."
- (10) Includes 7,500 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Kotowski is the President of U.S. Operations of Rapiscan U.S.A. See "Management."
- (11) Includes 13,500 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Mansouri is the Vice President-Corporate Marketing of UDT Sensors. See "Management."
- (12) Includes 15,187 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Hickman is the Managing Director of OSI Singapore and OSI Malaysia. See "Management."

- (13) Includes 2,813 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Includes 22,500 shares held by the Steve Cary Good & Bari Anne Good Trust and 15,000 shares held individually by Mr. Good. Does not include shares beneficially owned by the Good Swartz & Berns Pension Fund. Mr. Good is a Director of the Company. See "Management."
- (14) Includes 2,813 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Includes 217,500 shares held jointly by Mr. Syal and his wife, Mohini Syal. Mr. Syal is a Director of the Company. See "Management."
- (15) Includes 15,000 shares held by the Meyer and Doreen Luskin Family Trust. Does not include shares beneficially owned by Scope Industries. Includes 8,438 shares issuable pursuant to options exercisable within 60 days of August 15, 1997. Mr. Luskin is the President, Chief Executive Officer, Chairman of the Board and a principal shareholder of Scope Industries.
- (16) Does not include shares beneficially owned by Steven C. Good, Mark and Penny Berns Trust, Arnold G. and Hope Anisgarten and Rajiv Mehra. Steven C. Good and Mark S. Berns are the trustees of the Good Swartz & Berns Pension & Profit Sharing Plan.
- (17) Includes 6,429 shares held by Surendra V. Jain M.D. Inc.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company currently consists of 40,000,000 shares of Common Stock and 10,000,000 shares of preferred stock.

COMMON STOCK

As of August 15, 1997, 6,156,528 shares of Common Stock were outstanding, held of record by 79 shareholders. After completion of the Offering, there will be 9,486,528 shares of Common Stock outstanding.

The holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the shareholders. The holders of Common Stock are entitled to cumulative voting rights with respect to the election of directors so long as at least one shareholder has given notice at the meeting of shareholders prior to the voting of that shareholder's desire to cumulate votes. Subject to preferences that may be applicable to any shares of preferred stock issued in the future, holders of Common Stock are entitled to receive ratably such dividends as may be declared by the Board of Directors out of funds legally available therefore. See "Dividend Policy." In the event of a liquidation, dissolution or winding up of the Company, holders of the Common Stock are entitled to share ratably with the holders of any then outstanding preferred stock in all assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock. Holders of Common Stock have no preemptive rights and no right to convert their Common Stock into any other securities. There are no redemption or sinking fund provisions applicable to the Common Stock. All outstanding shares of Common Stock are, and all shares of Common Stock to be outstanding upon completion of the Offering will be, fully paid and nonassessable.

PREFERRED STOCK

The Board of Directors has authority to issue up to 10,000,000 shares of preferred stock, no par value, and to fix the rights, preferences, privileges and restrictions, including voting rights, of those shares without any future vote or action by the shareholders. The rights of the holders of the Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any preferred stock that may be issued in the future. The issuance of preferred stock could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company, thereby delaying, deferring or preventing a change in control of the Company. Furthermore, such preferred stock may have other rights, including economic rights senior to the Common Stock, and, as a result, the issuance thereof could have a material adverse effect on the market value of the Common Stock. The Company has no present plans to issue shares of preferred stock. No shares of preferred stock are currently outstanding.

STOCK TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Company's Common Stock is U.S. Stock Transfer Corporation.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 9,486,528 shares of Common Stock outstanding (assuming no exercise of stock options after August 15, 1997). Of these shares, the 3,700,000 shares sold in this Offering (4,255,000 shares if the Underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction or registration under the Securities Act unless they are purchased by "affiliates" of the Company as that term is defined under Rule 144. The remaining 5,786,528 shares will be "restricted securities" as defined in Rule 144 ("Restricted Shares"). Of such Restricted Shares, approximately 5,761,000 Restricted Shares (or approximately 5,206,000 if the Underwriters' over-allotment option is exercised in full) are subject to lock-up agreements with the Underwriters. See "Underwriting."

Future sales of substantial amounts of Common Stock in the public market could adversely affect prevailing market prices and adversely affect the Company's ability to raise additional capital in the capital markets at a time and price favorable to the Company. As a result of the lock-up agreements and the provisions of Rule 144(k), Rule 144 and Rule 701, all currently outstanding shares will be available for sale in the public market upon expiration of the lock-up agreements 180 days after the date of this Prospectus, subject to the provisions of Rule 144 and Rule 701.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1.0% of the then outstanding shares of the Company's Common Stock (approximately 94,865 shares immediately after this Offering) or the average weekly trading volume during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain requirements as to the manner of sale, notice and availability of current public information about the Company. A person who is not an affiliate, has not been an affiliate within three months prior to the sale and has beneficially owned the Restricted Shares for at least two years is entitled to sell such shares under Rule 144(k) without regard to any of the limitations described above.

Subject to certain limitations on the aggregate offering price of a transaction and other conditions, Rule 701 may be relied upon with respect to the resale of securities originally purchased from the Company by its employees, directors, officers, consultants or advisers between May 20, 1988, the effective date of Rule 701, and the date the issuer becomes subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), pursuant to written compensatory benefit plans or written contracts relating to the compensation of such persons. In addition, the Securities and Exchange Commission (the "Commission") has indicated that Rule 701 will apply to typical stock options granted by an issuer before it becomes subject to the reporting requirements of the Exchange Act (including options granted before May 20, 1988, if made in accordance with the Rule had it been in effect), along with the shares acquired upon exercise of such options beginning May 20, 1988 (including exercises after the date of this Prospectus). Securities issued in reliance on Rule 701 are restricted securities and, subject to the contractual restrictions described above, beginning 90 days after the date of this Prospectus, such securities may be sold: (i) by persons other than Affiliates, subject only to the manner of sale provisions of Rule 144; and (ii) by Affiliates under Rule 144 without compliance with its minimum holding period requirements.

The Company intends to file a registration statement on Form S-8 under the Securities Act to register the shares of Common Stock reserved for issuance under the 1987 Plan and the 1997 Plan or previously issued upon the exercise of options, thus permitting the resale of shares issued under such plans by non-affiliates in the public market without restriction under the Securities Act. The registration statement is expected to be filed within 90 days after the date of this Prospectus and will automatically become effective upon filing.

Prior to this Offering, there has been no public market for the Common Stock of the Company, and any sale of substantial amounts of Common Stock in the open market may adversely affect the market price of Common Stock offered hereby.

UNDERWRITING

The Underwriters (the "Underwriters") named below, acting through their representatives, Robertson, Stephens & Company LLC, William Blair & Company, L.L.C. and Volpe Brown Whelan & Company, LLC (the "Representatives"), have severally agreed, subject to the terms and conditions of the Underwriting Agreement by and among the Company, the Selling Shareholders and the Underwriters, to purchase from the Company and the Selling Shareholders the number of shares of Common Stock set forth opposite their respective names below. The Underwriters are committed to purchase and pay for all of such shares if any are purchased.

Underwriter -----	Number of Shares -----
Robertson, Stephens & Company LLC.....	
William Blair & Company, L.L.C.....	
Volpe Brown Whelan & Company, LLC.....	
Total.....	3,700,000 =====

The Representatives have advised the Company and the Selling Shareholders that the Underwriters propose to offer the shares of Common Stock at the offering price set forth on the cover page of this Prospectus: (i) to the public; and (ii) to certain dealers who will be offered a concession of not more than \$ per share, of which \$ may be reallocated to other dealers. After the consummation of this Offering, the public offering price, concession and reallocation to dealers may be reduced by the Representatives. No such reduction shall change the amount of proceeds to be received by the Company or the Selling Shareholders as set forth on the cover page of this Prospectus.

The Underwriters have been granted an option, exercisable during the 30-day period after the date of this Prospectus, to purchase up to 555,000 additional shares of Common Stock from certain Selling Shareholders at the same price per share as the Company and the Selling Shareholders will receive for the 3,700,000 shares that the Underwriters have agreed to purchase in the Offering. To the extent that the Underwriters exercise such option, each of the Underwriters will have a firm commitment to purchase approximately the same percentage thereof that the number of shares of Common Stock to be purchased by it set forth in the above table bears to the total number of shares of Common Stock listed in such table. The Underwriters may exercise such option only to cover over-allotments made in connection with the sale of Common Stock offered hereby.

The Underwriting Agreement contains covenants of indemnity among the Underwriters, the Company and the Selling Shareholders against certain civil liabilities, including liabilities under the Securities Act.

Pursuant to the terms of certain lock-up agreements, officers and directors of the Company, the Selling Shareholders and certain other shareholders holding collectively approximately 5,761,000 shares of the Company's Common Stock outstanding prior to the Offering, have agreed with the Representatives that except for the 3,700,000 shares being offered in this Offering, or the shares sold pursuant to the over-allotment option, without the prior written consent of Robertson, Stephens & Company LLC or as a gift or distribution to one who agrees to be bound by these restrictions, until 180 days after the effective date of this Prospectus (the "lock-up period"), they will not offer to sell, contract to sell or otherwise dispose of any shares of Common Stock, including shares issuable under options or warrants exercisable during the 180 days after the date of this Prospectus, any options or warrants to purchase shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock owned directly by such holders or with respect to which they have the power of disposition. Approximately 5,761,000 shares of Common Stock subject to the lock-up agreements will become eligible for immediate public sale following expiration of the lock-up period, subject to the provisions of the Securities Act and the Rules promulgated thereunder. Robertson, Stephens & Company LLC may, in its sole discretion, and at any time without notice, release all or a portion of the

securities subject to the lock-up agreements. See "Shares Eligible for Future Sale." In addition, the Company has agreed that until the expiration of the lock-up period, the Company will not, without the prior written consent of Robertson, Stephens & Company LLC, offer, sell, contract to sell or otherwise dispose of any shares of Common Stock, any options or warrants to purchase Common Stock or any securities convertible into or exchangeable for shares of Common Stock, other than the Company's sales of shares in this Offering, the issuance of shares of Common Stock upon the exercise of outstanding stock options, and the grant of options to purchase shares or the issuance of shares of Common Stock under the Company's 1997 Plan.

The Representatives have advised the Company that, pursuant to Regulation M under the Securities Act, certain persons participating in the Offering may engage in transactions, including stabilizing bids, syndicate covering transactions or the imposition of penalty bids which may have the effect of stabilizing or maintaining the market price of the Common Stock at a level above that which might otherwise prevail in the open market. A "stabilizing bid" is a bid for or the purchase of the Common Stock on behalf of the Underwriters for the purpose of fixing or maintaining the price of the Common Stock. A "syndicate covering transaction" is the bid for or the purchase of the Common Stock on behalf of the Underwriters in connection with the Offering. The Underwriters may also cover all or a portion of such short position, by exercising the Underwriters' over-allotment option referred to above. A "penalty bid" is an arrangement permitting the Representatives to reclaim the selling concession otherwise accruing to an Underwriter or syndicate member in connection with the Offering if the Common Stock originally sold by such Underwriter or syndicate member is purchased by the Representatives in a syndicate covering transaction and has therefore not been effectively placed by such Underwriter or syndicate member. The Representatives have advised the Company that such transactions may be effected on the Nasdaq National Market or otherwise and, if commenced, may be discontinued at any time.

The Representatives have advised the Company that they do not intend to confirm sales to any accounts over which they exercise discretionary authority.

Prior to this Offering, there has been no public market for the Company's securities. The initial public offering price of the Common Stock was determined by negotiation among the Company, the Selling Shareholders and the Representatives. Among the factors considered in such negotiations were prevailing market conditions, the results of operations of the Company in recent periods, market valuations of publicly traded companies that the Company and the Representatives believe to be comparable to the Company, estimates of the business potential of the Company, the present state of the Company's development, the current state of the industry and the economy as a whole, and any other factors deemed relevant.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company by Troy & Gould Professional Corporation, Los Angeles, California. Certain legal matters with respect to this Offering will be passed upon for the Underwriters by Jones, Day, Reavis & Pogue, Los Angeles, California. As of the date of this Prospectus, Troy & Gould Professional Corporation and certain of its members collectively own 52,500 shares of the Company's Common Stock.

EXPERTS

The consolidated financial statements included in this Prospectus and the related financial statement schedule included elsewhere in the Registration Statement have been audited by Deloitte & Touche LLP, independent auditors, as stated in their reports appearing herein and elsewhere in the Registration Statement, and have been so included in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

ADDITIONAL INFORMATION

The Company has filed with the Commission in Washington, D.C., a Registration Statement on Form S-1 under the Securities Act with respect to the Common Stock being offered hereby. As permitted by the rules and regulations of the Commission, this Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement, and such exhibits and schedules. A copy of the Registration Statement, and the exhibits and schedules thereto, may be inspected without charge at the public reference facilities maintained by the Commission in Room 1024, 450 Fifth Street N.W., Washington, D.C. 20549, and at the Commissions regional offices located at the Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048, and copies of all or any part of the Registration Statement may be obtained from such offices upon payment of the fees prescribed by the Commission. In addition, the Registration Statement may be accessed at the Commission's site on the World Wide Web located at <http://www.sec.gov>. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete and, in each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

OSI SYSTEMS, INC.

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REPORT OF INDEPENDENT AUDITORS

OSI Systems, Inc.:

We have audited the accompanying consolidated balance sheets of OSI Systems, Inc. (the "Company") and its subsidiaries as of June 30, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years ended June 30, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OSI Systems, Inc. and its subsidiaries as of June 30, 1997 and 1996, and the results of their operations and their cash flows for the years ended June 30, 1997, 1996 and 1995 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

Los Angeles, California

August 15, 1997

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	JUNE 30,	
	1996	1997
ASSETS (NOTE 4)		
Current Assets:		
Cash and cash equivalents (Note 1).....	\$ 581	\$ 553
Accounts receivable, net of allowance for doubtful accounts of \$276 and \$586 at June 30, 1996 and 1997, respectively (Note 1).....	13,295	15,556
Other receivables (Note 2).....	783	2,346
Inventory (Note 1).....	13,642	18,517
Prepaid expenses.....	633	537
Deferred income taxes (Notes 1 and 7).....	700	874
	-----	-----
Total current assets.....	29,634	38,383
	-----	-----
Property and Equipment, Net (Notes 1 and 4):.....	4,454	5,841
Intangible and Other Assets, Net (Notes 1, 2 and 3).....	1,221	3,109
	-----	-----
Total.....	\$35,309	\$47,333
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank lines of credit (Note 4).....	\$ 7,783	\$ 9,100
Current portion of long-term debt (Notes 6 and 13).....	1,491	1,240
Current portion of senior subordinated debt (Note 5).....	2,500	
Accounts payable (Note 1).....	6,522	7,712
Accrued payroll and related expenses.....	1,667	1,607
Income taxes payable (Notes 1 and 7).....	799	1,804
Advances from customers.....	219	2,410
Other accrued expenses and current liabilities.....	2,609	3,710
	-----	-----
Total current liabilities.....	23,590	27,583
Bank Line of Credit (Notes 1 and 4).....		
Senior Subordinated Debt (Notes 1 and 5).....	575	
Long-Term Debt (Notes 1, 6 and 13).....	3,113	2,840
Deferred Income Taxes (Notes 1 and 7).....	827	101
Minority Interest (Note 1).....	10	
	-----	-----
Total liabilities.....	28,115	30,524
Commitments and Contingencies (Notes 8 and 13)		
Shareholders' Equity (Notes 4, 5, 9 and 10):		
Preferred stock, voting shares, no par value; authorized, 3,000,000 shares; issued and outstanding, 1,318,750 shares at June 30, 1996 and 0 shares at June 30, 1997 (Note 10)....	1,514	
Preferred stock, no par value; 10,000,000 shares authorized; none issued and outstanding at June 30, 1996 and 1997.....		
Common stock, no par value; authorized, 40,000,000 shares; issued and outstanding, 1,858,132 and 6,156,528 shares at June 30, 1996 and 1997, respectively.....	560	7,367
Retained earnings.....	4,994	9,171
Cumulative foreign currency translation adjustment (Note 1)..	126	271
	-----	-----
Total shareholders' equity.....	7,194	16,809
	-----	-----
Total.....	\$35,309	\$47,333
	=====	=====

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	YEAR ENDED JUNE 30,		
	1995	1996	1997
Revenues (Note 1).....	\$ 49,815	\$ 61,518	\$ 77,628
Cost of goods sold.....	37,818	45,486	56,174
Gross profit.....	11,997	16,032	21,454
Operating expenses:			
Selling, general and administrative expenses (Notes 11 and 12).....	7,601	9,757	11,304
Research and development (Note 1).....	1,591	1,663	2,504
Stock option compensation (Note 9).....	--	--	856
Total operating expenses.....	9,192	11,420	14,664
Income from operations.....	2,805	4,612	6,790
Interest expense (Notes 4, 5, 6 and 11).....	1,251	1,359	1,197
Income before provision for income taxes and minority interest.....	1,554	3,253	5,593
Provision for income taxes (Notes 1 and 7).....	413	1,111	1,416
Income before minority interest in net loss of subsidiaries.....	1,141	2,142	4,177
Minority interest in net loss of subsidiaries (Note 1).....	17	117	--
Net income.....	\$ 1,158	\$ 2,259	\$ 4,177
Historical net income.....	\$ 1,158	\$ 2,259	\$ 4,177
Interest on subordinated debt, net of income taxes.....	216	166	92
Minority interest in net loss of subsidiaries..	(17)	(117)	--
Net income available to common shareholders....	\$ 1,357	\$ 2,308	\$ 4,269
Net income per share (Note 1).....	\$ 0.22	\$ 0.38	\$ 0.68
Weighted average shares outstanding.....	6,172,901	6,134,669	6,263,963

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands, except share amounts)

	PREFERRED		COMMON		RETAINED EARNINGS	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT			
BALANCE, JULY 1, 1994...	1,123,750	1,124	1,703,257	363	1,577	64	3,128
Exercise of stock options.....	35,000	70	60,000	75	--	--	145
Conversion of debt....	160,000	320	78,750	105	--	--	425
Translation adjustment.....	--	--	--	--	--	95	95
Net income.....	--	--	--	--	1,158	--	1,158
BALANCE, JUNE 30, 1995..	1,318,750	1,514	1,842,007	543	2,735	159	4,951
Exercise of stock options.....	--	--	16,125	17	--	--	17
Translation adjustment.....	--	--	--	--	--	(33)	(33)
Net income.....	--	--	--	--	2,259	--	2,259
BALANCE, JUNE 30, 1996..	1,318,750	1,514	1,858,132	560	4,994	126	7,194
Exercise of stock options.....	--	--	118,125	146	--	--	146
Conversion of debt....	1,250,000	2,500	120,536	225	--	--	2,725
Minority interest acquisitions.....	--	--	206,610	1,566	--	--	1,566
Conversion of preferred stock.....	(2,568,750)	(4,014)	3,853,125	4,014	--	--	--
Stock option compensation.....	--	--	--	856	--	--	856
Translation adjustment.....	--	--	--	--	--	145	145
Net income.....	--	--	--	--	4,177	--	4,177
BALANCE, JUNE 30, 1997..	--	\$ --	6,156,528	\$7,367	\$9,171	\$271	\$16,809

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	YEAR ENDED JUNE 30,		
	1995	1996	1997
Cash flows from operating activities:			
Net income.....	\$ 1,158	\$ 2,259	\$ 4,177
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Minority interest in net loss of subsidiaries....	(17)	(117)	
Provision for losses on accounts receivable.....	(70)	404	389
Depreciation and amortization.....	1,551	2,014	2,302
Stock option compensation.....			856
Deferred income taxes.....	240	(12)	(900)
Gain on sale of property and equipment.....	(11)	(13)	
Changes in operating assets and liabilities, net of business acquisition:			
Accounts receivable.....	(1,239)	(858)	(1,980)
Other receivables.....	226	(194)	(1,530)
Inventory.....	(2,599)	(4,068)	(4,573)
Prepaid expenses.....	(139)	(245)	96
Accounts payable.....	221	120	1,026
Accrued payroll and related expenses.....	191	707	(60)
Income taxes payable.....	(217)	652	1,005
Advances from customers.....	9	183	1,448
Other accrued expenses and current liabilities.....	(87)	(827)	1,101
Net cash provided by (used in) operating activities.....	(783)	5	3,357
Cash flows from investing activities:			
Proceeds from sale of property and equipment.....	142	120	
Additions to property and equipment.....	(1,396)	(1,612)	(2,182)
Cash paid for business acquisition, net of cash acquired.....			(848)
Cash paid for minority interest.....	(160)		
Other assets.....	(662)	(688)	23
Net cash used in investing activities.....	(2,076)	(2,180)	(3,007)
Cash flows from financing activities:			
Net proceeds from (repayment of) bank lines of credit.....	2,668	1,502	1,014
Payments on senior subordinated debt.....	(700)		(350)
Payments on junior subordinated debt.....	(280)		
Payments on long-term debt.....	(1,095)	(1,250)	(3,983)
Proceeds from issuance of long-term debt.....	2,806	1,097	2,647
Proceeds from exercise of stock options and warrants.....	145	17	146
Proceeds from issuance of minority interest.....		21	
Net cash provided by (used in) financing activities.....	3,544	1,387	(526)
Effect of exchange rate changes on cash.....	95	(36)	148
Net (decrease) increase in cash.....	780	(824)	(28)
Cash, beginning of period.....	625	1,405	581
Cash, end of period.....	\$ 1,405	\$ 581	\$ 553
Supplemental disclosures of cash flow information--			
Cash paid during the period for:			
Interest.....	\$ 1,229	\$ 1,346	\$ 1,197
Income taxes.....	\$ 82	\$ 377	\$ 1,511

See accompanying notes to consolidated financial statements.

SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

During 1995, certain related parties converted \$105 and \$320 of junior and senior subordinated debt into 78,750 and 160,000 shares of common and preferred stock, respectively.

During 1995, the Company refinanced \$1,244 in long-term debt obligations through a new financing arrangement with a bank.

During 1997, certain related parties converted \$225 and \$2,500 of senior subordinated debt into 120,536 and 1,250,000 shares of common and preferred stock, respectively.

During October and December 1996, the Company acquired the minority interest of its two majority-owned subsidiaries through the issuance of 178,956 shares of common stock, at an estimated fair value of \$6.67 per share. An additional 27,654 shares, at an estimated fair value of \$13.50 per share, are issuable at June 30, 1997. The excess of the fair value of the common stock of \$1,566 over the book value of the minority interests of \$12 has been recorded as goodwill.

In 1997, the Company acquired all of the capital stock of Advanced Micro Electronics AS. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired.....	\$2,350
Goodwill.....	588
Cash paid for the capital stock.....	(916)

Liabilities assumed.....	\$2,022
	=====

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General -- OSI Systems, Inc. (formerly Opto Sensors, Inc.) and its subsidiaries (collectively, the "Company") is a vertically integrated, worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for original equipment manufacturers ("OEMs") in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband.

Consolidation -- The consolidated financial statements include the accounts of OSI Systems, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In October and December 1996 the Company purchased the minority interests of its two majority-owned subsidiaries by exchanging 178,956 shares of common stock for the minority shares of the subsidiaries. The excess of the fair value of the common stock issued of \$1,193,000 over the carrying value of the minority interest of \$12,000 has been recorded as goodwill and is being amortized over a period of 20 years. The Company also agreed to issue additional shares of the Company's common stock to the selling shareholders of one of the subsidiaries. The number of shares to be issued is based upon the pre-tax income of the subsidiary for the year ended June 30, 1997, and has been determined to be 27,654 shares and have been included in the number of shares issued for minority interest acquisitions in the accompanying 1997 consolidated statement of shareholders' equity.

Concentrations of Credit Risk -- The Company's financial instruments that are exposed to credit risk consist primarily of accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and provides an allowance for potential credit losses. The concentration of credit risk is generally diversified due to the large number of entities comprising the Company's customer base and their geographic dispersion.

Inventory -- Inventory is stated at the lower of cost or market; cost is determined on the first-in, first-out method.

Inventory at June 30, 1996 and 1997 consisted of the following (in thousands):

	JUNE 30,	
	----- 1996	1997 -----
Raw materials.....	\$ 7,795	\$11,408
Work-in-process.....	3,114	4,224
Finished goods.....	2,733	2,885
	-----	-----
Total.....	\$13,642	\$18,517
	=====	=====

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Property and Equipment -- Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line and accelerated methods over lives ranging from three to ten years. Amortization of leasehold improvements is calculated on the straight-line basis over the shorter of the useful life of the asset or the lease term.

Property and equipment at June 30, 1996 and 1997 consisted of the following (in thousands):

	JUNE 30,	
	1996	1997
Equipment.....	\$ 6,280	\$ 7,545
Leasehold improvements.....	1,601	2,093
Tooling.....	1,558	1,967
Furniture and fixtures.....	488	666
Computer equipment.....	1,283	1,699
Vehicles.....	93	176
Total.....	11,303	14,146
Less accumulated depreciation and amortization.....	6,849	8,305
Property and equipment, net.....	\$ 4,454	\$ 5,841

Intangibles and Other Assets -- Intangible and other assets at June 30, 1996 and 1997 consisted of the following (in thousands):

	JUNE 30,	
	1996	1997
Software development costs.....	\$ 588	\$ 588
Goodwill.....	--	2,142
Deposits.....	262	320
Other.....	524	444
Total.....	1,374	3,494
Less accumulated amortization.....	153	385
Intangible and other assets, net.....	\$1,221	\$3,109

Goodwill in the amount of \$1,554,000 resulting from the acquisition of minority interests and \$588,000 resulting from the acquisition of Advanced Micro Electronics AS (see Note 3) is being amortized, on a straight-line basis, over a period of twenty years.

Software development costs incurred in the research and development of software products are expensed as incurred until the technological feasibility of the product has been established. After technological feasibility is established, certain software development costs are capitalized. The software, once developed, is a component which is included in X-ray security machines when they are sold to customers. The Company amortizes these costs on a straight-line basis over a two-year period. No software development costs were capitalized during the year ended June 30, 1997.

Impairment of Long-Lived Assets -- The Company reviews long-lived assets, including goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the sum of the expected future cash flows, undiscounted and without interest charges, is less than the carrying amount of the asset, the Company recognizes an impairment loss based on the estimated fair value of the asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Income Taxes -- Deferred income taxes are provided for temporary differences between the financial statement and income tax bases of the Company's assets and liabilities, based on enacted tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Fair Value of Financial Instruments -- The Company's financial instruments consist primarily of cash accounts receivable, accounts payable, and debt instruments. The carrying values of financial instruments other than debt instruments, are representative of their fair values due to their short-term maturities. The carrying values of the Company's 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 offered to the Company. The fair value of the Company's senior subordinated debt cannot be determined due to the related-party nature of the obligations.

Revenue Recognition-- The Company recognizes revenue upon shipment of its product.

Foreign Currency Translation -- The accounts of the Company's operations in Singapore, Malaysia, Norway and the United Kingdom are maintained in Singapore dollars, Malaysian ringgits, Norwegian Krone and U.K. pounds sterling, respectively. Foreign currency financial statements are translated into U.S. dollars at current rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of shareholders' equity. Transaction (losses) gains of approximately \$76,000, (\$123,000), and \$68,000 were included in income for the years ended June 30, 1995, 1996 and 1997, respectively.

Earnings Per Share -- Earnings per share information is computed using the weighted average number of shares of common stock outstanding and dilutive common equivalent shares from preferred stock, convertible debt and stock options using the treasury stock method. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin Topic 4D, common stock and stock options issued or granted during the twelve month period prior to the date of the initial filing of the Company's Form S-1 Registration Statement have been included in the calculation of the weighted average number of common and common equivalent shares using the treasury stock method as if they were outstanding for each period. Net income and net income per share have been presented to reflect the effect of the conversion of the preferred stock into shares of the Company's common stock (see Notes 5 and 10).

Recently Issued Accounting Pronouncements -- In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share". The statement is effective for interim periods and fiscal years ending after December 15, 1997. The Company does not expect that the statement will have a material effect on the Company's consolidated financial statements.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, "Reporting for Comprehensive Income" and No. 131, "Disclosure about Segments of an Enterprise and Related Information." These statements are effective for financial statements issued for periods beginning after December 15, 1997. The Company has not yet analyzed the impact of adopting these statements.

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

2. INVESTMENT IN JOINT VENTURE

In January 1995, the Company, together with an unrelated company, formed ECIL-Rapiscan Security Products Limited, a joint venture organized under the laws of India. The Company, the Company's chairman and the Company's chief financial officer have a 36.0%, 10.5% and 4.5% ownership interest, respectively, in the joint venture. The Company's investment of approximately \$108,000 at June 30, 1997 is included in other assets in the accompanying financial statements and the Company's equity in the earnings of the joint venture, since its inception, have been insignificant.

The joint venture was formed for the purpose of the manufacture, assembly, service and testing of X-ray security and other products. One of the Company's subsidiaries is a supplier to the joint venture partner, who in turn manufactures and sells the resulting products to the joint venture utilizing technology received from the subsidiary. The agreement provides for technology transfer between the Company and the joint venture, subject to certain restrictions.

During the year ended June 30, 1995 and 1997, the Company earned a technical fee from the joint venture in the amount of \$200,000 and \$115,000, respectively. At June 30, 1997, \$100,000 was unpaid and included in other receivables in the accompanying consolidated financial statements.

3. ACQUISITIONS

On March 3, 1997, the Company acquired the capital stock of Advanced Micro Electronics AS ("AME") headquartered in Horten, Norway, from Industriinvestor ASA. The cash purchase price amounted to \$916,000. The acquisition has been accounted for by the purchase method of accounting, and accordingly, the purchase price has been allocated to the assets acquired of \$2,350,000, and liabilities assumed of \$2,022,000, based on the estimated fair values of the assets and liabilities at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired is being amortized over a period of 20 years.

The results of operations of AME are included in the Company's consolidated financial statements from the date of acquisition. Had the acquisition occurred as of July 1, 1994, pro forma consolidated sales for the years ended June 30, 1995, 1996 and 1997 would have been \$53,338,000, \$65,371,000, and \$79,871,000, respectively. Consolidated pro forma net income and net income per share would not have been materially different than the amounts reported for the respective periods.

4. BANK AGREEMENTS

At June 30, 1996 and 1997, line of credit borrowings consisted of the following (in thousands):

	JUNE 30,	
	1996	1997
Line of credit -- U.S.....	\$6,361	\$6,577
Line of credit -- Singapore.....	1,422	974
Line of credit -- Norway.....		586
Line of credit -- Rapiscan U.K.		963
Total bank lines of credit.....	\$7,783	\$9,100

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The Company maintains a senior loan agreement with a U.S. bank, which provides for a \$10,000,000 revolving line of credit, a \$2,500,000 term loan, a \$1,000,000 equipment line and a \$1,500,000 stock purchase facility (see Note 6). Total borrowings under the agreement are not to exceed \$15,000,000. Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at June 30, 1997) plus .25% or, at the Company's option, at 2.25% above the LIBOR rate for specific advances and terms. Interest is payable monthly, and the line expires in November 1998. Borrowings under the senior loan agreement are collateralized by substantially all of the assets of the Company. At June 30, 1997 approximately \$5,077,000 was issued and outstanding under the revolving line of credit. The agreement also provides a commitment for letters of credit up to \$10,000,000 not to exceed the available balance under the line of credit. At June 30, 1997 approximately \$154,000 was issued and outstanding under letters of credit.

Covenants in connection with the agreement impose restrictions and requirements related to, among other things, maintenance of certain financial ratios, limitations on outside indebtedness, rental expense and capital expenditures.

The Company has a credit agreement with a U.S. bank, which provides for a \$5,000,000 revolving line of credit and a \$4,000,000 letter of credit sub-facility. Total borrowings under the agreement may not exceed \$5,000,000. Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at June 30, 1997) plus .25%. Interest is payable monthly, and the line expires in October 1997. Borrowings under the current agreement are secured by certain of the Company's assets. At June 30, 1997 \$1,500,000 was issued and outstanding under the revolving line of credit. The agreement also provides a commitment for letters of credit up to \$4,000,000. At June 30, 1997 approximately \$1,917,000 was issued and outstanding under letters of credit.

Covenants in connection with the agreement impose restrictions and requirements related to, among other things, maintenance of certain financial ratios, limitations on outside indebtedness, profitability, and capital expenditures.

Opto Sensors Pte. Ltd. ("OSP") has a loan agreement with a Singapore bank, which provides for revolving line of credit borrowings up to 2,600,000 Singapore dollars (approximately \$1,800,000 at June 30, 1997). The agreement also has a term note feature providing for borrowings up to approximately \$300,000 (see Note 6). Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at June 30, 1997) plus 1.5%. Interest is payable monthly, and borrowings are due on demand. Borrowings under the line of credit are collateralized by certain OSP assets and are guaranteed by the Company and certain officers of the Company.

AME has a loan agreement with a Norwegian bank, which provides for revolving line of credit borrowings up to 5,000,000 Norwegian Krone (approximately \$682,000 at June 30, 1997). Borrowings under the line of credit bear interest at a variable rate, which was 6.65% at June 30, 1997. Interest is payable quarterly. The loan agreement has no expiration date. Borrowings under the line of credit are collateralized by certain AME assets.

A subsidiary has loan agreements with a U.K. bank, which provide for overdraft borrowings of up to 1,250,000 pound sterling (approximately \$2,081,000 at June 30, 1997), line of credit borrowings up to 750,000 pound sterling (approximately \$1,248,000 at June 30, 1997) and a 500,000 pound sterling (approximately \$832,000 at June 30, 1997) borrowing facility for tender and performance bonds. Borrowings under the overdraft facility bear interest at a base rate (6.0% at June 30, 1997) plus 2%. The overdraft facility expires in December 1997. At June 30, 1997 no amounts were outstanding under the overdraft facility. Borrowings under the line of credit bear interest at the base rate plus 1.85%. Interest is payable monthly and the line expires in November 1997. Borrowings under this agreement are secured by certain assets of the subsidiary and are guaranteed by the Company. Approximately \$452,000 was outstanding under performance bonds at June 30, 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

A subsidiary has a loan agreement with a Malaysian bank, which provides for revolving line of credit borrowings up to 2,500,000 Malaysian ringgits (approximately \$990,000 at June 30, 1997) for performance bonds and standby letter of credits. This line expires in October 1997. No amounts were outstanding under this agreement at June 30, 1997.

5. SENIOR SUBORDINATED DEBT

The Company has issued convertible notes payable to non affiliates and certain related parties. Under the terms of the various agreements, certain debt contained nondetachable warrants to convert the related debt into shares of the Company's preferred stock at \$2.00 per share. Certain other notes provided for the conversion of the debt into shares of the Company's preferred stock at \$2.80 per share at the option of the holder. The remaining debt, at the option of the holder, provided for conversion of the debt into shares of the Company's common stock at \$1.87 per share. During the year ended June 30, 1997, all of the debt outstanding under the various agreements was repaid or converted in accordance with the conversion terms as summarized in the following table:

	JUNE 30,	
	1996	1997

	(in thousands)	
Convertible note payable to a related party, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on April 24, 1997 converted into 1,250,000 shares of preferred stock on November 27, 1996.....	\$2,500	\$--
Convertible notes payable, (including \$50,000 to a related party) interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998, paid in full as of October 28, 1996.....	350	--
Convertible notes payable to directors, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998, converted into 26,786 shares of common stock on October 31, 1996.....	50	--
Convertible notes payable, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998 converted into 93,750 shares of common stock on October 31, 1996.....	175	--
	-----	-----
Total senior subordinated debt.....	3,075	--
Less current portion.....	2,500	--
	-----	-----
Total long-term portion.....	\$ 575	\$--
	=====	=====

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

6. LONG-TERM DEBT

At June 30, 1996 and 1997, long-term debt consisted of the following:

	JUNE 30,	
	-----	-----
	1996	1997
	-----	-----
	(in thousands)	
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in monthly installments of \$52,083. The term loan was repaid in January 1997.....	\$1,667	--
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in equal monthly installments of \$16,666. The term loan was repaid in January 1997.....	750	--
Equipment line note payable to a bank, interest due monthly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in monthly installments of \$11,623. The term loan was repaid in January 1997.....	511	--
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.5% at June 30, 1997) plus 0.50%, principal due in monthly installments of \$52,083 until paid in full on March 31, 2001. Outstanding balances are collateralized by substantially all of the assets of the Company.....	--	\$2,344
Term loan payable to a Norwegian bank, interest due quarterly at a rate of 5.75% principal due in monthly installments of \$12,129 until paid in full on June 1, 2001. Outstanding balances are collateralized by certain assets of the subsidiary.....	--	437
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.5% at June 30, 1997) plus 2.25%, principal due in monthly installments of \$8,333 until paid in full on November 30, 1997.....	141	41
Liability under settlement agreements, interest computed at the 52 week treasury bill rate (5.35% at June 30, 1997), principal due \$300,000 in 1998, and \$400,000 in 1999.....	1,000	700
Other.....	535	558
	-----	-----
	4,604	4,080
Less current portion of long-term debt.....	1,491	1,240
	-----	-----
Long-term portion of debt.....	\$3,113	\$2,840
	=====	=====

Fiscal year principal payments of long-term debt as of June 30, 1997 are as follows (in thousands):

1998.....	\$1,240
1999.....	1,333
2000.....	896
2001.....	592
2002.....	19

Total.....	\$4,080
	=====

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

7. INCOME TAXES

For financial reporting purposes, income before provision for income taxes and minority interest includes the following components (in thousands):

	YEAR ENDED JUNE 30,		
	1995	1996	1997
Pretax income:			
United States.....	\$1,277	\$1,965	\$2,655
Foreign.....	277	1,288	2,938
Total pretax income.....	\$1,554	\$3,253	\$5,593

The Company's provision for income taxes is comprised of the following (in thousands):

	YEAR ENDED JUNE 30,		
	1995	1996	1997
Current:			
Federal.....	\$ 43	\$ 510	\$1,256
State.....	3	21	24
Foreign.....	127	592	1,036
Deferred.....	173	1,123	2,316
Total provision.....	\$413	\$1,111	\$1,416

Deferred income tax assets (liabilities) at June 30, 1996 and 1997 consisted of the following (in thousands):

	JUNE 30,	
	1996	1997
Expenses not currently deductible.....	\$ 873	\$1,455
State income taxes.....	--	--
Other.....	--	301
Total deferred income tax assets.....	873	1,756
Depreciation.....	(145)	(43)
Capitalized software development costs.....	(214)	(219)
State income taxes.....	(173)	(329)
Revitalization zone deductions.....	(278)	(392)
Other.....	(190)	--
Total deferred income tax liabilities.....	(1,000)	(983)
Net deferred income taxes.....	\$ (127)	\$ 773

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The consolidated effective income tax rate differs from the federal statutory income tax rate due primarily to the following:

	YEAR ENDED		
	JUNE 30,		
	1995	1996	1997
Provision for income taxes at federal statutory rate...	35.0 %	35.0 %	35.0 %
State income taxes (credits), net of federal benefit...	(2.6)	0.2	(4.7)
Nontaxable earnings of FSC.....	(7.1)	(5.7)	(4.9)
Research and development tax credits.....	(2.8)	--	(1.7)
Foreign income subject to tax at other than federal statutory rate.....	0.7	1.1	(1.0)
Other.....	3.4	3.6	2.6
	----	----	----
Effective income tax rate.....	26.6 %	34.2 %	25.3 %
	====	====	====

The Company does not provide for U.S. income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time. At June 30, 1997 undistributed earnings of the foreign subsidiaries amounted to approximately \$3,656,000. It is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings.

8. COMMITMENTS AND CONTINGENCIES

The Company leases its production and office facilities and certain equipment under various operating leases. Most of these leases provide for increases in rents based on the Consumer Price Index and include renewal options ranging from two to ten years. The lease for the production and office facilities in Hawthorne, California expires in 2005, and the Company is currently considering exercising its option to purchase the facilities for approximately \$3,000,000. Future minimum lease payments under such leases as of June 30, 1997 are as follows: \$280,000; 1998, \$1,046,000; 1999, \$826,000; 2000, \$684,000; 2001, \$658,000; 2002, \$401,000; and thereafter, \$2,561,000. Total rent expense included in the accompanying consolidated financial statements was \$959,000, \$901,000 and \$921,000 for the years ended June 30, 1995, 1996 and 1997, respectively.

The Company is involved in various claims and legal proceedings arising out of the conduct of its business, principally related to patent rights and related licensing issues. The principal litigation involves claims that certain technology used in the Company's scanners infringes on certain existing patents and seeks damages in an unspecified amount and an injunction barring the Company from making, using, selling or offering for sale certain of its security and inspection products in the United States. The Company has alleged that its security products do not infringe the patents, and that the plaintiffs in the suit had previously granted the Company the right to market its security and inspection products. In the event it is determined that the Company's products infringe upon the rights of the plaintiffs and that the Company does not have the right to use the technology in its products, the Company could be prevented from marketing most of its security and inspection products in the United States and could be required to pay a significant amount of damages.

An estimate of loss or range of loss cannot be made at this time, however, management of the Company believes that the resolution of the above noted litigation and other legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

9. STOCK OPTIONS

The Company has two stock option plans. Under the 1987 plan, 1,050,000 shares of common stock have been reserved for the issuance of incentive stock options to key employees, directors and officers of the Company. The price, terms and conditions of each issuance are determined by the Board of Directors.

The 1997 plan was established in May 1997 and authorizes the grant of up to 850,000 shares of the Company's common stock in the form of incentive and nonqualified options. Employees, officers and directors are eligible under this plan, which is administered by the Board of Directors who determine the terms and conditions of each grant. The exercise price of nonqualified options may not be less than 85% of the fair market value of the Company's common stock at the date of grant. The exercise price of incentive stock options may not be less than the fair market value of the Company's common stock at the date of grant. The exercise price of incentive stock options granted to individuals that own greater than ten percent of the Company's voting stock may not be less than 110% of the fair market value of the Company's common stock at the date of grant.

Exercise periods for incentive and nonqualified options granted under this plan may not exceed ten years from the grant date.

In November and December 1996, the Company granted stock options for the purchase of 235,125 shares of the Company's common stock to certain employees at prices below the \$6.67 estimated fair market value at the date grant. The options were accelerated to vest immediately and accordingly, the Company has recorded compensation expense for the year ended June 30, 1997, representing the excess of the fair value of the Company's common stock at the date of grant over the option exercise price.

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The following summarizes stock option activity for the years ended June 30, 1995, 1996 and 1997:

	NUMBER OF OPTIONS	OPTION PRICE	
		WEIGHTED AVERAGE	TOTAL
Outstanding, July 1, 1994.....	307,875	1.43	440,000
Granted.....	69,000	2.00	138,000
Exercised.....	(60,000)	1.25	(75,000)
Canceled.....	(19,500)	1.77	(34,000)
Outstanding, June 30, 1995.....	297,375	1.57	469,000
Granted.....	51,000	2.17	111,000
Exercised.....	(16,125)	1.06	(17,000)
Canceled.....	(13,500)	1.60	(22,000)
Outstanding, June 30, 1996.....	318,750	1.70	541,000
Granted.....	669,611	8.88	5,947,000
Exercised.....	(118,125)	1.24	(146,000)
Canceled.....	(9,750)	2.38	(23,000)
Outstanding, June 30, 1997.....	860,486	\$7.34	\$6,319,000

The following summarizes pricing and term information for options outstanding as of June 30, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT JUNE 30, 1997	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED EXERCISABLE AT JUNE 30, 1997	WEIGHTED AVERAGE EXERCISE PRICE
\$0.17 to 0.67.....	13,500	1.0 years	\$0.64	13,500	\$0.64
1.87 to 2.00.....	134,625	2.0	1.95	102,563	1.93
2.33 to 3.33.....	277,875	4.1	2.89	269,250	2.90
11.50 to 13.50.....	434,486	5.0	12.08	--	--
\$0.17 to 13.50.....	860,486	4.2	\$7.34	385,313	\$2.56

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." The estimated fair value of options granted during 1996 and 1997 pursuant to SFAS 123 was approximately \$19,000 and \$1,054,000, respectively. Had the Company adopted SFAS 123, pro forma net income would have been \$2,297,000 and \$4,058,000, and pro forma net income per share would have been \$0.36 and \$0.64 for 1996 and 1997, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield and volatility of zero, a risk free interest rate of 6.33% and expected option lives of 5 years.

10. STOCKHOLDERS' EQUITY

In May 1997, the Company's Board of Directors authorized a 1.5 for 1 stock split of the outstanding common stock. All share and per share numbers have been adjusted to retroactively reflect the common stock split.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The preferred stock had a liquidation preference of \$1.00 per share, and was otherwise entitled to the same voting, dividend and all other rights as the common stock.

In June 1997, in order to simplify the capital structure of the Company, holders of the preferred stock converted each preferred share into 1.5 shares (post-split) of common stock.

In June 1997, the Company amended its articles of incorporation, which articles authorize 10,000,000 shares of new preferred stock. Such preferred stock has no par value, and no preferred shares are issued and outstanding at June 30, 1997.

In connection with the acquisition of the minority interest of a subsidiary in November 1996 (see Note 1), the Company granted the selling shareholders options to purchase 45,486 shares of the Company's common stock at \$11.50 per share. The options vest over four years from the date of grant. If the Company does not successfully complete an underwritten public offering of its common stock by December 31, 1997, the options revert back to the Company.

11. RELATED PARTY TRANSACTIONS

The Company contracts with entities affiliated by common ownership to provide messenger service and auto rental and printing services. The Company also contracts for professional services from a firm that has a partner serving as a member of the Company's Board of Directors. Included in selling, general and administrative expenses for the years ended June 30, 1995, 1996 and 1997 are approximately \$77,000, \$83,000, and \$111,000 for messenger service and auto rental; \$78,000, \$63,000, and \$82,000 for printing services; and \$23,000, \$7,000, and \$11,000 for professional services, respectively. During the year ended June 30, 1997, the Company paid a one time consulting fee amounting to \$100,000 to an entity that is a shareholder of the Company.

Shareholders and other parties related to the Company have made loans to the Company under agreements subordinating such loans to the Company's bank borrowings (see Notes 4, 5 and 6). Interest expense related to such borrowings was approximately \$315,000, \$263,000, and \$146,000 for the years ended June 30, 1995, 1996 and 1997, respectively.

12. GOVERNMENT SETTLEMENT

During 1994, a subsidiary of the Company was notified that the U.S. Department of Justice was conducting an investigation regarding the testing of certain products that were sold by a subsidiary under government contracts. A settlement of \$1,500,000 was agreed to, and was accrued and charged to operations in the year ended June 30, 1994. The settlement is being paid in five increasing installments, with the unpaid principal balance bearing interest at the 52-week Treasury bill rate. At June 30, 1997, the unpaid balance of this settlement was \$700,000 (see Note 6).

13. EMPLOYEE BENEFIT PLANS

OSI Systems, Inc. has a qualified employee retirement savings plan. The plan provides for a contribution by the Company, which is determined annually by the Board of Directors. In addition, the plan permits voluntary salary reduction contributions by employees. The Company made no contributions to the plan for the years ended June 30, 1997, 1996 and 1995. During 1995, a subsidiary in the U.K. ("Rapiscan") transferred its existing employees from their former owner's plan to a new plan, the Rapiscan defined benefit plan, which covers certain Rapiscan employees. The benefits under this plan are based on years of service and the employee's highest 12 months' compensation during the last five years of employment. Rapiscan's funding policy is to make the minimum annual contributions required by applicable regulations based on an independent actuarial valuation sufficient to provide for benefits accruing after that date. Pension expense for the years ended June 30, 1995, 1996 and 1997 was approximately \$111,000, \$91,000, and \$89,000, respectively.

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

14. SEGMENT INFORMATION

The Company's operating locations include the United States, Europe (United Kingdom and Norway) and Asia (Singapore and Malaysia). The Company's operations and identifiable assets by geographical area are as follows (in thousands):

	YEAR ENDED JUNE 30, 1995				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues.....	\$33,158	\$11,341	\$5,316		\$49,815
Transfer between geographical areas.....	1,698	788	3,831	\$ (6,317)	--
Net revenues.....	\$34,856	\$12,129	\$9,147	\$ (6,317)	\$49,815
Operating income.....	\$ 1,996	\$ 485	\$ 267	\$ 57	\$ 2,805
Identifiable assets.....	\$36,751	\$10,832	\$4,839	\$(21,642)	\$30,780

	YEAR ENDED JUNE 30, 1996				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues.....	\$42,403	\$15,346	\$ 3,769		\$61,518
Transfer between geographical areas.....	6,304	3,092	10,974	\$(20,370)	--
Net revenues.....	\$48,707	\$18,438	\$14,743	\$(20,370)	\$61,518
Operating income.....	\$ 2,641	\$ 1,278	\$ 890	\$ (197)	\$ 4,612
Identifiable assets.....	\$42,932	\$10,179	\$ 5,986	\$(23,788)	\$35,309

	YEAR ENDED JUNE 30, 1997				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues.....	\$54,310	\$18,915	\$ 4,403		\$77,628
Transfer between geographical areas.....	8,655	5,156	12,191	\$(26,002)	--
Net revenues.....	\$62,965	\$24,071	\$16,594	\$(26,002)	\$77,628
Operating income.....	\$ 3,814	\$ 1,849	\$ 1,390	\$ (263)	\$ 6,790
Identifiable assets.....	\$52,367	\$15,066	\$ 8,395	\$(28,495)	\$47,333

[INSIDE BACK PAGE]

[Background names of various countries]

[Picture of inspection machine with image of gun and various items on monitor]

RAPISCAN
2000 Units Shipped Worldwide

[Picture of cruise ship terminal]
Cruise Ship Terminal

[Picture of correctional facility]
Correctional Facility

[Picture of freight forwarder facility]
International Freight Forwarder

[Picture of court house]
Municipal Court House

[Picture of Buckingham Palace]
Buckingham Palace

[Picture of airport terminal]
International Airport

The Company's security and inspection products are used for security purposes at locations such as airports, courthouses, government buildings, nuclear facilities, mail rooms, schools and prisons. In addition, the security and inspections products are also increasingly being used for non-security purposes, such as for cargo inspection to detect narcotics and contraband, prevention of pilferage at semiconductor manufacturing facilities, quality assurance for agricultural products, and the detection of gold and currency.

[LOGO OF OPTO-SENSORS, INC.]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth an itemized statement of all expenses to be incurred in connection with the issuance and distribution of the securities that are the subject of this Registration Statement other than underwriting discounts and commissions. All expenses incurred with respect to the distribution will be paid by the Company, and such amounts, other than the Securities and Exchange Commission registration fee and the NASD filing fee, are estimates only.

Securities and Exchange Commission registration fee.....	\$ 18,052
NASD filing fee.....	6,457
Nasdaq National Market System listing fee.....	42,000
Printing and engraving expenses.....	100,000
Transfer agent and registrar fees.....	2,000
Legal fees and expenses.....	175,000
Accounting fees and expenses.....	150,000
"Blue sky" fees and expenses.....	15,000
Other expenses.....	151,491

Total.....	\$660,000*
	=====

* The Selling Shareholders participating in the Offering of the 370,000 shares to be sold by such Selling Shareholders will pay their pro rata share of all expenses incurred with respect to the distribution of the Common Stock, which amount is currently estimated to be approximately \$60,000. The Selling Shareholders who are selling in the case that the underwriters over-allotment option is exercised will not pay any of the above expenses.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Company's Articles of Incorporation ("Articles") provide that, pursuant to the California Corporations Code, the liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent permissible under California law. This is intended to eliminate the personal liability of a director for monetary damages in an action brought by, or in the right of, the Company for breach of a director's duties to the Company or its shareholders. This provision in the Articles does not eliminate the directors' fiduciary duty and does not apply for certain liabilities: (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) for acts or omissions that a director believes to be contrary to the best interest of the Company or its shareholders or that involve the absence of good faith on the part of the director; (iii) for any transaction from which a director derived an improper personal benefit; (iv) for acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders; (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders; (vi) with respect to certain transactions or the approval of transactions in which a director has a material financial interest; and (vii) expressly imposed by statute for approval of certain improper distributions to shareholders or certain loans or guarantees. This provision also does not limit or eliminate the rights of the Company or any shareholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. The Company's Amended and Restated Bylaws require the Company to indemnify its officers and directors under certain circumstances. Among other things, the Bylaws require the Company to indemnify directors and officers against certain liabilities that may arise by reason of their status or service as directors and officers and allows the Company to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

Section 317 of the California Corporations Code ("Section 317") provides that a California corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative (other than

action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or enterprise, against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the corporation, and, with respect to any criminal action or proceeding, had no cause to believe his conduct was unlawful.

Section 317 also provides that a California corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted under similar standards, except that no indemnification may be made in respect to any claim, issue or matter as to which such persons shall have been adjudged to be liable to the corporation unless and only to the extent that the court in which such action or suit was brought shall determine that despite the adjudication of liability, such person is fairly and reasonably entitled to be indemnified for such expenses which the court shall deem proper.

Section 317 provides further that to the extent a director or officer of a California corporation has been successful in the defense of any action, suit or proceeding referred to in the previous paragraphs or in the defense of any claim, issue or matter therein, he shall be indemnified against expenses actually and reasonably incurred by him in connection therewith; that indemnification authorized by Section 317 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the corporation may purchase and maintain insurance on behalf of a director or officer of the corporation against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the corporation would have the power to indemnify him against such liabilities under Section 317.

In May 1994, the Company entered into indemnification agreements with Deepak Chopra, Ajay Mehra and Thomas K. Hickman in connection with certain personal guarantees provided by them to a Singapore financial institution that provided a loan to OSI Singapore, a subsidiary of the Company. The indemnification agreements provide that the Company shall indemnify Messrs. Chopra, Mehra and Hickman against all debts, liabilities, damages, claims, expenses and costs including attorneys' fees incurred by them in connection with OSI Singapore's inability to fulfill its obligations under the loan and their respective guarantees of such loan. Messrs. Chopra, Mehra and Hickman are directors and/or executive officers of the Company.

In connection with certain settlements entered into pursuant to the Consent Agreements, the Company's subsidiary, UDT Sensors, agreed to pay the United States government a total of \$1,500,000 in five annual installments ending on March 31, 1999. In order to ensure the full payment, Deepak Chopra personally guaranteed the payment of \$750,000 of the foregoing amount. The Company entered into an indemnification agreement with Mr. Chopra pursuant to which the Company shall indemnify Mr. Chopra against all debts, liabilities, damages, claims, expenses and costs including attorneys' fees incurred by him in connection with his guarantee of the payment of \$750,000.

In addition, the Company intends to enter into indemnity agreements ("Indemnity Agreement(s)") with each of its directors and executive officers prior to the consummation of the Offering. Each such Indemnity Agreement will provide that the Company shall indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any civil or criminal action or administrative proceeding arising out of the performance of his duties as a director or officer. Such indemnification is available if the indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action, had no reasonable cause to believe his conduct was unlawful. Each Indemnity Agreement will permit the director or officer that is party thereto to bring

suit to seek recovery of amounts due under the Indemnity Agreement and to recover the expenses of such a suit if he is successful.

The Underwriting Agreement to be filed as Exhibit 1.1 to this Registration Statement provides for indemnification by the Underwriters of the Company and its officers and directors for certain liabilities arising under the Securities Act or otherwise.

The Company believes that it is the position of the Commission that insofar as the foregoing provisions may be invoked to disclaim liability for damages arising under the Securities Act, the provision is against public policy as expressed in the Securities Act and is therefore unenforceable. Such limitation of liability also does not affect the availability of equitable remedies such as injunctive relief or rescission.

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

As of May 31, 1997, the Company had outstanding 2,568,750 shares of Preferred stock which had the same rights, preferences, privileges and restrictions as the Common Stock except for a liquidation preference entitling each holder of Preferred Stock to receive \$1.00 per share of Preferred Stock prior to any payment to holders of Common Stock upon any liquidation, dissolution or winding up of the Company. The then outstanding shares of Preferred Stock were held by 29 investors including certain directors, executive officers and principal shareholders of the Company. On June 12, 1997, in connection with the Stock Split, each outstanding share of Preferred Stock was converted into one and one-half shares of Common Stock (the "Preferred Stock Conversion"). As a result, all of the shares of Preferred Stock were converted into 3,853,125 shares of Common Stock. No Preferred Stock is currently outstanding.

In June 1989, April 1990 and February 1993 the Company issued and sold (without payment of any selling commission to any person) subordinated promissory notes in the aggregate principal amounts of approximately \$385,000, \$3,520,000 and \$575,000, respectively, with related warrants or conversion rights to purchase capital stock of the Company. The purchasers of the subordinated notes consisted of a financial institution and certain of the Company's directors, executive officers, principal shareholders and their family members, friends and acquaintances. The promissory notes, warrants and conversion rights provided that the note holders were entitled to exercise the warrants or convert the notes into capital stock of the Company by cancelling the appropriate amounts of the outstanding principal amount and accrued interest of such promissory notes. The exercise price of the warrants issued in June 1989 and April 1990 was \$1.33 per share (after giving effect to the Stock Split), whereas the exercise price of the warrants and convertible notes issued in February 1993 was \$1.87 per share (after giving effect to the Stock Split). During the period from March 1995 to November 1996, an aggregate principal amount of \$3,150,000 underlying the subordinated notes were converted into 132,858 shares of Common Stock and 1,410,000 shares of Preferred Stock (before giving effect to the Preferred Stock Conversion and the Stock Split) as a result of the exercise of the warrants and conversion rights. As a result of the Preferred Stock Conversion and the Stock Split, the former note holders that exercised their warrants and conversion rights currently hold 2,314,287 shares of Common Stock.

In April 1990, the Company issued warrants to purchase 35,000 shares of Preferred Stock to Troy & Gould Professional Corporation ("Troy & Gould") in consideration for legal services rendered by Troy & Gould. In April 1995, Troy & Gould and certain principals thereof exercised such warrants by acquiring an aggregate of 35,000 shares of Preferred Stock for a total exercise price of \$70,000. As a result of the Preferred Stock Conversion, Troy & Gould and certain of its principals currently hold 52,500 shares of Common Stock.

Since June 1, 1994, the Company sold an aggregate of 194,250 shares of Common Stock for an aggregate purchase price of \$238,075 to various employees pursuant to the exercise of options granted under the Company's 1987 Incentive Stock Option Plan.

Since June 1, 1994, the Company has issued options to purchase a total of 789,611 shares of its Common Stock to a total of 89 officers, directors and employees of the Company. The exercise price of the foregoing options granted by the Company ranged from \$2.00 to \$13.50 per share.

In November 1996, the Company issued 159,201 shares of its Common Stock to 10 officers and key employees of the Company in exchange for all of the shares of capital stock of Rapiscan U.S.A., one of the Company's subsidiaries, then owned by such officers and employees. The shares of Common Stock were valued at \$6.67 per share. As part of the same arrangement, the Company issued 27,654 additional shares of its Common Stock to such officers and key employees in August 1997. The number of shares of Common Stock issued was based on the combined net income before taxes of Rapiscan U.S.A. and Rapiscan UK for the fiscal year ended June 30, 1997.

In September 1996, the Company issued 19,755 shares of its Common Stock to six officers and key employees of the Company in exchange for all of the shares of capital stock of Ferson Optics, Inc., one of the Company's subsidiaries, then owned by such officers and employees. The shares of Common Stock were valued at \$6.67 per share.

The Company believes that the issuances of securities pursuant to the foregoing transactions were exempt from registration under the Securities Act of 1933, as amended, by virtue of Section 4(2) or Section 3(b).

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following exhibits, which are furnished with this Registration Statement or incorporated herein by reference, are filed as a part of this Registration Statement:

EXHIBIT NUMBER -----	EXHIBIT DESCRIPTION -----
1.1	Form of Underwriting Agreement.(1)
3.1	Articles of Incorporation of the Company.(1)
3.2	Amended and Restated Bylaws of the Company.(1)
4.1	Specimen Common Stock Certificate.
5.1	Opinion of Troy & Gould Professional Corporation.
10.1	1987 Incentive Stock Option Plan, as amended, and form of Stock Option Agreement.(1)
10.2	1997 Stock Option Plan and forms of Stock Option Agreements.(2)
10.3	Employment Agreement dated April 1, 1997 between the Company and Deepak Chopra.(1)
10.4	Employment Agreement dated April 1, 1997 between the Company and Ajay Mehra.(1)
10.5	Employment Agreement dated March 1, 1993 between the Company and Andreas F. Kotowski.(3)
10.6	Employment Agreement dated April 1, 1997 between the Company and Manoocher Mansouri Aliabadi.(1)
10.7	Employment Agreement dated October 5, 1994 between the Company and Anthony S. Crane.
10.8	Expatriate Employment Agreement dated July 11, 1995 between the Company and Thomas K. Hickman.(2)
10.9	Incentive Compensation Agreement dated December 18, 1996 between the Company and Andreas F. Kotowski.(1)
10.10	Form of Indemnity Agreement for directors and executive officers of the Company.
10.11	Joint Venture Agreement dated January 4, 1994 among the Company, Electronics Corporation of India, Limited and ECIL-Rapiscan Security Products Limited ("ECIL-Rapiscan") as amended.(2)
10.12	Amendment Number Two to Lease, dated October 24, 1995 to lease dated January 1, 1989 by and between KB Management Company, and UDT Sensors, Inc.(1)
10.13	Lease Agreement dated July 4, 1986 by and between Electricity Supply Nominees Limited and Rapiscan Security Products Limited (as assignee of International Aeradio Limited).
10.14	Lease Agreement dated January 17, 1997 by and between Artloon Supplies Sdn. Bhd. and Opto Sensors (M) Sdn. Bhd.(1)

EXHIBIT
NUMBER

EXHIBIT DESCRIPTION

10.15	Credit Agreement entered into on January 24, 1997, by and between Sanwa Bank California and Opto Sensors, Inc., UDT Sensors, Inc., Rapiscan Security Products (U.S.A.), Inc. and Ferson Optics, Inc.(1)
10.16	Credit Agreement entered into on November 1, 1996 by and between Opto Sensors, Inc., UDT Sensors, Inc., Rapiscan Security Products (U.S.A.), Inc. and Ferson Optics, Inc., and Wells Fargo HSBC Trade Bank.(1)
10.17	License Agreement made and entered into as of December 19, 1994, by and between EG&G Inc. and Rapiscan Security Products, Inc.(1)
10.18	Stock Purchase Agreement dated March 5, 1997 between Industriinvestor ASA and Opto Sensors, Inc.(1)
11.1	Statement regarding computation of earnings per share.(3)
21.1	Subsidiaries of the Company.(1)
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of Troy & Gould Professional Corporation (contained in Exhibit 5.1).
24.1	Power of Attorney.(1)
27.1	Financial Data Schedule.
99.1	Criminal Plea and Sentencing Agreement between UDT Sensors, Inc. and U.S. Attorney's Office.(2)
99.2	Agreement between UDT Sensors, Inc. and Department of Navy.(2)

- - - - -
- (1) Previously filed with the Company's Registration Statement filed June 13, 1997.
 - (2) Previously filed with the Company's Amendment No. 1 to the Registration Statement filed August 1, 1997.
 - (3) Replaces the exhibit previously filed with the corresponding exhibit number.

(b) The following schedules supporting the financial statements are included herein:

Schedule II--Valuation and Qualifying Accounts

All other schedules are omitted, since the required information is not present in amounts sufficient to require submission of schedules or because the information required is included in the Registrant's financial statements and notes thereto.

ITEM 17. UNDERTAKINGS

(a) The undersigned Registrant hereby undertakes to provide to the Underwriters at the closing specified in the Underwriting Agreement certificates in such denominations and registered in such names as required by the Underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the "Securities Act"), may be permitted to directors, officers, and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer, or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Hawthorne, State of California, on August 15, 1997.

OSI SYSTEMS, INC.

/s/ AJAY MEHRA

By: _____
 Ajay Mehra
 Vice President, Chief Financial
 Officer,
 Secretary and Director

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE ----
* ----- Deepak Chopra	Chairman, Chief Executive Officer and President (Principal Executive Officer)	August 15, 1997
/s/ AJAY MEHRA ----- Ajay Mehra	Vice President, Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer)	August 15, 1997
* ----- Steven C. Good	Director	August 15, 1997
* ----- Meyer Luskin	Director	August 15, 1997
* ----- Madan G. Syal	Director	August 15, 1997
*By: /s/ AJAY MEHRA ----- Ajay Mehra as Attorney-In-Fact		August 15, 1997

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	ADDITIONS				BALANCE AT END OF PERIOD
	BALANCE AT BEGINNING OF PERIOD	(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED AND TO OTHER ACCOUNTS	DEDUCTIONS-- WRITE-OFFS (RECOVERIES)	
Allowance for doubtful accounts:					
Year Ended June 30, 1994.....	\$ 38 =====	\$150 =====	-- ===	(15) ===	\$203 =====
Year Ended June 30, 1995.....	\$203 =====	(70) =====	-- ===	80 ===	\$ 53 =====
Year Ended June 30, 1996.....	\$ 53 =====	\$404 =====	-- ===	181 ===	\$276 =====
Year Ended June 30, 1997.....	\$276 =====	\$389 =====	-- ===	79 ===	\$586 =====

EXHIBIT
NUMBER

EXHIBIT DESCRIPTION

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- 11.1 Statement regarding computation of earnings per share.(3)
- 21.1 Subsidiaries of the Company.(1)
- 23.1 Consent of Deloitte & Touche LLP.
- 23.2 Consent of Troy & Gould Professional Corporation (contained in Exhibit 5.1).
- 24.1 Power of Attorney.(1)
- 27.1 Financial Data Schedule.
- 99.1 Criminal Plea and Sentencing Agreement between UDT Sensors, Inc. and U.S. Attorney's Office.(2)
- 99.2 Agreement between UDT Sensors, Inc. and Department of Navy.(2)

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- (1) Previously filed with the Company's Registration Statement filed June 13, 1997.
 - (2) Previously filed with the Company's Amendment No. 1 to the Registration Statement filed August 1, 1997.
 - (3) Replaces the exhibit previously filed with the corresponding exhibit number.

OSI SYSTEMS, INC. FACE TEXT

OSI SYSTEMS, INC.

NUMBER

SHARES

Incorporated under the laws of the state of California

COMMON STOCK

CUSIP 671044 10 5

SEE REVERSE FOR CERTAIN DEFINITIONS

This Certifies that

is the recorder holder of

FULLY PAID AND NONASSESSABLE SHARES OF COMMON STOCK, NO PAR
VALUE, OF

OSI SYSTEMS, INC.

transferable on the books of the Corporation by the holder hereof

in person or by duly authorized Attorney upon surrender of this

certificate properly endorsed. This certificate is not valid

until countersigned by the Transfer Agent and Registrar.

WITNESS the facsimile seal of the Corporation and the facsimile

signatures of its duly authorized officers.

Dated:

Secretary

{image of Corporate Seal}

President

COUNTERSIGNED AND REGISTERED:

U.S. STOCK TRANSFER CORPORATION

TRANSFER AGENT

AND REGISTRAR

BY

AUTHORIZED SIGNATURE

OSI SYSTEMS, INC. BACK TEXT

OSI SYSTEMS, INC.

The Corporation is authorized to issue two classes of stock, Common Stock and Preferred Stock. The Board of Directors of the Corporation has authority to fix the number of shares and the designation of any series of Preferred Stock and to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any unissued series of Preferred Stock.

The following abbreviations, when used in the inscription on the face of this certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common
UNIF GIFT MIN ACT.....Custodian.....

(Cust) (Minor)
under Uniform Gifts to Minors Act.....

(State)
UNIF TRF MIN ACT.....Custodian (until age.....)
(Cust)

.....under Uniform Transfers (Minor)
to Minors Act (State)

Additional abbreviations may also be used though not in the above list.

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE.....

FOR VALUE RECEIVED,.....hereby sell, assign and transfer unto.....

.....
(PLEASE TYPE OR TYPEWRITE NAME AND ADDRESS, INCLUDING ZIP CODE, OR ASSIGNEE)

..... Shares of the common stock represented by the within Certificate, and do hereby irrevocably constitute and appoint Attorney to transfer the said stock on the books of the within named Corporation with full power of substitution in the premises.

Dated THE SIGNATURE TO THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.
Signature(s) Guaranteed

By
THE SIGNATURE(S) SHOULD BE AN ELIGIBLE GUARANTOR INSTITUTION
(BANKS, STOCKBROKERS, SAVINGS AND LOAN ASSOCIATIONS AND CREDIT
UNIONS WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE
MEDALLION PROGRAM), PURSUANT TO S.E.C. RULE 17Ad-15

August 15, 1997

OPT2-3

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

Re: Registration Statement on Form S-1
(Registration No. 333-29179)

Gentlemen:

We have acted as securities counsel to OSI Systems, Inc., a California corporation (the "Company"), in connection with the preparation and filing with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Securities Act"), of a Registration Statement on Form S-1, as amended, Registration No. 333-29179 (the "Registration Statement"). The Registration Statement relates to the public offering by the Company and certain selling shareholders named therein (the "Selling Shareholders") of up to 4,255,000 shares of Common Stock of the Company, of which 3,330,000 shares are to be issued and sold by the Company (the "New Shares") and 925,000 shares are to be sold by the Selling Shareholders (the "Outstanding Shares"), including 555,000 shares to cover over-allotments, if any.

The New Shares and the Outstanding Shares are to be sold by the Company and the Selling Shareholders pursuant to an Underwriting Agreement (the "Underwriting Agreement") by and among the Company, the Selling Shareholders and Robertson, Stephens & Company LLC, William Blair & Company, L.L.C. and Volpe Brown Whelan & Company, LLC, acting as representatives of the several underwriters named in the Underwriting Agreement. This opinion is being furnished in accordance with the requirements of Item 601(b)(5) of Regulation S-K under the Securities Act.

In connection with this opinion, we have examined and are familiar with originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records and other instruments as we have deemed necessary or appropriate as a basis for the opinions set forth herein, including (i) the Registration Statement of the Company filed

with the Securities and Exchange Commission; (ii) the Articles of Incorporation and the Amended and Restated Bylaws of the Company, as amended to date; (iii) the form of the Underwriting Agreement; (iv) the form of Common Stock Certificate; (v) copies of certain resolutions adopted by the Board of Directors of the Company relating to the issuance of the New Shares and the Outstanding Shares, the filing of the Registration Statement and any amendments or supplements thereto and related matters; and (vi) such other documents as we have deemed necessary or appropriate as a basis for the opinions set forth below.

In our examination, we have assumed the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such latter documents. In making our examination of documents executed by parties other than the Company, we have assumed that such parties had the power, corporate or other, to enter into and perform all obligations thereunder and have also assumed the due authorization by all requisite action, corporate or other, and execution and delivery by such parties of such documents and the validity and binding effect thereof. As to any facts material to the opinions expressed herein which were not independently established or verified, we have relied upon oral or written statements and representations of officers and other representatives of the Company and others.

Members of our firm are admitted to the bar in the State of California, and we do not express any opinion as to the laws of any other jurisdiction, other than the laws of the United States of America to the extent referred to specifically herein.

Based on the foregoing, it is our opinion that, subject to effectiveness with the Securities and Exchange Commission of the Registration Statement and to registration or qualification under the securities laws of the states in which securities may be sold,

1. The New Shares are duly and validly authorized and, upon the sale and issuance thereof in the manner contemplated in the Registration Statement and the Underwriting Agreement, and upon payment therefor, will

constitute legally issued, fully paid and nonassessable shares of Common Stock of the Company; and

2. The Outstanding Shares are duly and validly authorized and constitute legally issued, fully paid and nonassessable shares of Common Stock of the Company.

We consent to the use of our name under the caption "Legal Matters" in the Registration Statement, and to the filing of this opinion as an exhibit to the Registration Statement. By giving you this opinion and consent, we do not admit that we are experts with respect to any part of the Registration Statement within the meaning of the term "expert" as used in Section 11 of the Securities Act, or the rules and regulations promulgated thereunder, nor do we admit that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/s/ TROY & GOULD

TROY & GOULD
Professional Corporation

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of March, 1993, by and between Rapiscan Security Products (U.S.A.), Inc. ("Company"), a California corporation, and Andreas Kotowski ("Employee").

In consideration of the mutual promises contained herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT. The Company hereby agrees to employ the Employee,

subject to the terms and conditions herein set forth, to perform such duties as may be determined and assigned to him from time to time by the Company's Board of Directors ("Board") or by any other officer to whom the Board may have delegated such authority. The Employee hereby agrees to serve in such capacities on a full time basis until the end of the term of employment under this Agreement. During the term of employment, the Employee shall be the general manager of U.S. operations of the Company and shall also serve on the Board of Directors of the Company as well as the Company's subsidiary corporation.

2. TERM. The term of this Agreement shall commence as of the date of this

Agreement and shall continue and remain in full force and effect for a period of one (1) year. If at the end of such one (1) year period the Employee continues to be an employee of the Company, this Agreement shall continue in effect until terminated by either party hereto. Such termination may be for any reason whatsoever, with or without cause, and shall be effective immediately upon the giving of such notice of termination. It is understood and acknowledged by each of the parties hereto, irrespective of either one's performance, that no promises or representations (implied or expressed) have been made to either party regarding any commitment to keep this Agreement in effect for any specific or minimum period of time after the first year. Notwithstanding the foregoing, either party may terminate this Agreement at any time for cause.

3. COMPENSATION. The Company agrees to pay the Employee, and the Employee

agrees to accept, during the term of this Agreement, in full payment for all services to be rendered by the Employee hereunder, the following compensation:

(a) a salary at the rate of \$85,000.00 per annum, payable in equal periodic installments, not less frequently than semi-monthly, less such sums as may be required by law to be deducted or withheld.

(b) If the Employee is a full time employee for the entire one (1) year term, then at the end of such year the Company shall pay to the Employee the sum of \$15,000.00, less such sums as may be required by law to be deducted or withheld.

4. BONUS POOL.

(a) Subject to Paragraph 4(b) below and provided that this Agreement has not been terminated, the Employee shall be entitled to receive a one-time bonus from the Company in accordance with this Paragraph 4. The Employee shall have no right to receive a bonus (i) if the event giving rise to the payment of the bonus occurs prior to February 20, 1994, the shareholder's equity of the Company is less than \$750,000 at the time of such event and (ii) if the event giving rise to the payment of the bonus occurs after February 19, 1994, the shareholder's equity of the Company is less than \$1,000,000 at the time of such event.

(b) Subject to the conditions of Paragraph 4(a) above having been satisfied, the Company shall pay the Employee a bonus within sixty (60) days of the first to occur of any of the following events: (i) the consummation of any of the following (each of which shall be a "Sale Event"): a) a firm commitment underwritten public offering for Opto Sensors, Inc. ("OSI"), UDT Sensors, Inc. ("UDT") or the Company (OSI, UDT and the Company are collectively referred to as the OSI Group) pursuant to an effective registration statement under the Securities Act of 1933 as amended, b) the sale of assets or merger of the OSI Group or other acquisition transaction pursuant to which the shareholders of the OSI Group receive securities of a buyer whose shares are publicly traded or c) the sale, transfer or other disposition of all or substantially all of the assets of the OSI Group (for purposes of this Paragraph 4, the date of consummation of a Sale Event shall be deemed the date of the event causing the Employee to be eligible to receive the bonus) or (ii) the delivery of written notice to the Company from the Employee given at any time between February 20, 1994 and February 20, 1996 that the Employee desires to receive payment of the bonus.

(c) At the election of the Employee, the bonus may be paid in cash or securities of OSI (pursuant to a valuation determined by the Board of Directors of OSI in good faith); provided, however, that if a Sale Event has not occurred, The Company may elect to defer any cash payment, in which event the Company shall deliver to the Employee a non-interest bearing promissory note in the amount of the cash payment and which shall be due and payable sixty (60) days after the consummation of a Sale Event.

(d) The amount of the bonus to be paid to the Employee shall be equal to twenty-five percent (25%) of the net after-tax profit of the Company from February 20, 1993 through the date of the event giving rise to the payment of the bonus; provided, however, that (i) if a Sale Event occurs prior to February 20, 1994, the amount of the bonus shall be not less than \$100,000 and (ii) net after-tax profit shall be determined in accordance with generally accepted accounting principles except that such profit shall be determined only with respect to the Company's sales operations in North America, South America and the

Far East (other than Indonesia, Malaysia, Thailand or Singapore). The Employee acknowledges and agrees that sales operations of the Company in other locations and operations of any subsidiary or affiliate of the Company shall not be included in the determination of such profit.

5. INVENTIONS, PATENTS, DISCOVERIES, TRADE SECRETS.

(a) Except for the inventions, improvements and technology previously disclosed to the Company and described or listed in Schedule 5A (to be supplied by the Employee within 30 days) to this Agreement, the Employee agrees to make a prompt and complete disclosure to the Company of any technique, plan, concept, program, innovation or other item of information relating to the Company's business and to make in writing a disclosure of every invention, improvement and technology which relates to the Company's business which he learns of, conceives or reduces to practice during the term of this Agreement.

(b) As to inventions, improvements and technology described or listed on Schedule 5A to this Agreement, the Employee agrees to offer a license to the Company to make, have made, use, sell and have sold, such inventions, improvements and technology, upon terms and conditions which shall include:

(1) a royalty payment by the Company of five percent (5%) of the net lease, rental or sales price of products which use such invention, improvements or technology or are within the claims of any patent issued on such inventions, improvements or technology where such "net" price is defined specifically as gross amounts collected, less bona fide sales commissions and bona fide returns. However, (A) if such product is a component of another product or system, the royalty shall be based on the fair market value of such product, (B) with respect to the first Five Million Dollars (\$5,000,000) of net leases, rentals or sales of such products in the aggregate, the royalty payment shall be seven percent (7%), and (C) with respect to detectors or devices for measuring concentration of radon or other radioactive materials, the royalty shall be 10%;

(2) a provision allowing the Employee to terminate, or to terminate the exclusivity of, the license if the Company does not exploit the licensed technology at a reasonable level; and

(3) such other terms and conditions as may be common in patent, trade secret or know-how licenses and are satisfactory to the Employee and the Company.

(c) As to inventions, improvements and technology developed by the Employee, either solely or jointly with another, and which are not described or listed on Schedule 5A to this Agreement, the Employee agrees to grant to the Company an exclusive license subject to the following conditions:

(1) the Company will have the exclusive right to make, have made, use, sell, and have sold, such inventions, improvements and technology so long as the Employee is both employed by the Company and the Company does not exercise any right it may have, except solely as a result of conversion of the Employee's stock in OSI, to require him to give up, sell, transfer, or otherwise divest himself of, ownership of stock in the Company.

(2) If the Employee's employment with the Company is terminated, for any reason or no reason, the Employee shall have the right to make, have made, use, sell and have sold, such inventions, improvements and technology, either by himself or in a business enterprise. In such case, the Company's rights will be nonexclusive and, except as described above, neither the Company nor the Employee shall have the right to license others with respect to such inventions, improvements or technology.

(3) If the Company exercises any right it may have to require the Employee to give up, sell, transfer, or otherwise divest himself of, ownership of stock in the Company, the Company will lose any rights to make, have made, use, sell, or have sold, such inventions, improvements and technology (other than such rights it may have by virtue of being any employer of another joint inventor), and the Employee will have the exclusive rights to make, have made, use, sell and have sold, such inventions, improvements and technology (other than such rights of another joint venture).

(d) The Employee agrees that upon the Company's request, but without expense to himself, he will execute any and all applications, assignments and other legal instruments (consistent with any obligations to assign or license arising out of this Agreement) which the Company shall deem necessary or convenient for the protection of its information in the United States and/or foreign countries, and will render aid and assistance in all proceedings pertaining to said property.

(e) As to all documents, writings, illustrations, models, and other such materials coming into his possession by or through his employment with the Company which relate to inventions, improvements or technology which are not the subject of the license to the Company set forth in Paragraph 5(c) herein, the Employee agrees that, upon termination of his employment with the Company, he will surrender such materials to the Company, and agrees that such materials are at all times the Company's property. As to all such materials which relate to inventions, improvements or technology which are the subject of license to the Company set forth in Paragraph 5(c) herein, the Employee shall have the right to retain materials describing, summarizing, relating to, or evidencing conception or reduction to practice of, such inventions, improvements and technologies which are the subject of license to the Company set forth in Paragraph 5(c) herein, so long as the Employee provides copies of such materials to the Company upon termination of this employment with the Company.

(f) The Employee and the Company agree that their respective business interests require a confidential relationship between them both with respect to the Company's trade secrets and confidential business information, and with respect to the Employee's inventions, improvements and technology listed in Schedule 5A hereto, and inventions, improvements and technology learned of, conceived, developed or reduced to practice during his employment with the Company. Accordingly, the Employee and the Company agree to keep secret and to maintain in confidence each other's inventions, improvements, technology, confidences, trade secrets and confidential business information. These obligations of confidence shall continue beyond the duration of the Employee's employment with the Company for a reasonable time. The Employee and the Company agree that a reasonable time shall be for the Employee's obligations, three (3) years after the termination of the Employee's employment with the Company, and for the Company's obligations, three (3) years after the later of such termination or, if the Company exercises any right it may have to require the Employee to give up, sell, transfer, or otherwise divest himself of, ownership of stock in the Company the date such right is exercised.

(g) The foregoing covenants of this Paragraph 5 may be specifically enforced in equity and, for that purpose, the parties consent to the jurisdiction of the Los Angeles Superior Court. In this connection, the parties acknowledge that monetary damages would be inadequate to measure the injury to the Company resulting from a breach by the Employee or the Company of the covenants contained in this Paragraph 5 and, for that reason, the Employee and the Company each consent to the equitable relief herein provided for. In addition, the Employee and the Company each waive the posting of bond or other security by the other and each consent to the award by the court of reasonable attorneys' fees to the other if such equitable relief should be granted.

(h) Except as described or listed on Schedule 5A hereto, the Employee hereby represents and warrants that he has no involvement in any invention, process, innovation or improvement which relates to the Company's business.

6. VACATIONS AND BENEFITS. The Company's vacation health and medical and -----
benefit policies as they relate to the Employee shall be the same as those policies of UDT.

7. NON-COMPETITION COVENANTS. During the term of this Agreement, the -----
Employee agrees that he will not, anywhere in any country in which the Company engages in business:

(a) On his own behalf or as a partner, officer, director, employee or consultant of any other person, firm or corporation, directly or indirectly engage in any business activity which is the same as or similar to the business of the Company or any division or subsidiary thereof.

(b) Contract or enter into any business dealings with any of the Company's customers, suppliers and/or affiliates or divulge any confidential matter relating to the Company's business to anyone not connected with the Company.

(c) Solicit the employment of or otherwise interfere with the peaceful employment of the Company's servants, agents and employees.

(d) The foregoing covenants of this Paragraph 8 may be specifically enforced in equity and, for that purpose, the parties consent to the jurisdiction of the Los Angeles Superior Court. In this connection, the parties acknowledge that monetary damages would be inadequate to measure the injury to the Company resulting from a breach by the Employee of the covenants contained in this Paragraph 8 and, for that reason, the Employee consents to the equitable relief herein provided for. In addition, the Employee waives the posting of bond or other security by the Company and consents to the award by the court of reasonable attorneys' fees to the Company if such equitable relief should be granted.

8. INDEMNIFICATION FOR PREVIOUS EMPLOYER. The Company hereby agrees to

indemnify and hold harmless the Employee to the extent of \$25,000.00 (over and above any obligations to an employee which it may have by law) for any and all actions, claims or threats, whether or not actually reduced to judgment and whether or not actually collected or enforced, brought against the Employee or the Employer by E.G. & G. (or any company owned or controlled by E.G. & G.), the former employer of the Employee, for violation of any non-competition and/or confidentiality provisions of the written agreements between the Employee and E.G. & G., copies of which have heretofore been given to the Company or any oral or written agreements with substantially the same terms, and oral or written continuations or renewals of the same, and shall include indemnification for acts taken by the Employee to become employed by the Company, including without limitation, negotiating with the Company and terminating his relationship with E.G. & G. This indemnification and hold harmless provision shall not apply (a) if there were any written agreements entered into between the Employee and E.G. & G., other than those written agreements heretofore furnished to the Company by the Employee, (b) with respect to claims arising solely from acts taken by the Employee which are not related to employment with the Company and (c) to any acts taken by the Employee in violation of any written agreement between the Employee and the Company or any policy of the Company disclosed in writing to the Employee.

If the Employee is enjoined by a court of competent jurisdiction from being employed by the Company, then this Agreement shall be terminated at such time.

9. ENTIRE AGREEMENT. This Agreement contains the entire understanding

between the parties hereto and supersedes all

other oral and written agreements or understandings between them. No modification or addition hereto or waiver or cancellation of any provision shall be valid except by a writing signed by the party to be charged therewith.

10. SUCCESSORS AND ASSIGNS, ETC. This Agreement shall be binding upon,

and inure to the benefit of, the parties hereto and their heirs, successors, assigns and personal representatives. As used herein, the successors of the Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets, or similar reorganization. In no event may the Employee assign any rights or duties under this Agreement.

11. CONTROLLING LAW; SEVERABILITY. The validity and construction of

this Agreement or of any of its provisions shall be determined under the laws of the State of California. Should any provision of this Agreement be invalid either due to the duration thereof or the scope of the prohibited activity, such provision shall be limited by the court to the extent necessary to make it enforceable and, if invalid for any other reason, such invalidity or unenforceability shall not affect or limit the validity and enforceability of the other provisions hereof.

12. HEADINGS. The headings herein are inserted only as a matter of

convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof.

13. NOTICES. Any notice required or permitted to be given under this

Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to the Employee, or to its principal residence if to the Company.

14. WAIVER OF BREACH. The waiver by any party hereto of a breach of

any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

RAPISCAN SECURITY PRODUCTS (U.S.A.), INC.

By: /s/ Ajay Mehra

AJAY MEHRA

/s/ Andreas Kotowski

ANDREAS KOTOWSKI

(S) 2870. Application of provision providing that employee shall assign or offer to assign rights in invention to employer.

(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

(1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.

(2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.

STRICTLY PRIVATE AND CONFIDENTIAL

NOTE: - This Agreement constitutes A PRINCIPAL STATEMENT OF MAIN PARTICULARS OF EMPLOYMENT, as required and in accordance with the Employment Protection (Consolidation) Act 1978 and the Trade Union Reform and Employment Rights Act 1993, governing an employer's obligation to inform employees of the conditions applicable to the contract of employment relationship.

An Agreement between Rapiscan Security Products Limited of Unit B1, The Fleming Centre, Fleming Way, Crawley, West Sussex, RH10 2NN (hereinafter termed "the Company"), and Mr Anthony Sigmund Crane c/o International Aeradio Emirates, PO Box 9197, Dubai, U A E (hereinafter termed "the Employee").

Within this Agreement "Parent Company" shall for the time being mean Opto Sensors Inc, 12525 Chadron Avenue, Hawthorne, California 90250 and "Associated Company" shall encompass the organisation known as Rapiscan Security Product Inc, 2830 Temple Avenue, Long Beach, California 90806.

It is agreed between the parties as follows:

1. Occupation and Location

- a. The Employee shall serve the Company as Regional Sales Director, Middle East, to be based in Dubai and operating throughout the Middle East as appropriate to serve the best interests of the Company.
- b. No normal place of work is defined and the Company's registered place of business is recorded as being the Company's address stated above.
- c. The Company shall have the right to employ the Employee through a parent, associated or subsidiary company.
- d. The Employee shall be required to work in any other capacity reasonably within the scope of his activities. The Employee may be required to carry out the training of local nationals or other staff as a fundamental component of the Employee's activities without giving rise to a change in the Employee's defined job description or entitling the Employee to additional salary.

2. Requirement to Work Outside the United Kingdom

- a. It is the intention of both parties that the Employee, based in and working from Dubai, United Arab Emirates, shall serve the Company for a period of at least five years with effect from 1st January 1994.
- b. Either party may, however, at any stage give to the other a minimum of six Gregorian calendar months notice in writing that the Employee shall return to be domiciled in the United Kingdom and continue employment with the Company. Under these circumstances terms and conditions of employment to be negotiated to the mutual satisfaction of both parties, but which terms and conditions of employment would be different from those contained within this Agreement.

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3. Commencement of Employment

Initial employment with the company commenced on 30th November 1980, from when the period of continuous employment counts for reckonable purposes.

4. Level of Remuneration

The Employee will be paid a salary of 151,998 Dhs per annum, revised from time to time, to be paid monthly in arrears. Entitlement to salary shall accrue from day to day. United Kingdom National Insurance contributions shall be deducted by the Employer at source.

5. Hours of Work

The Employee's normal working week will be a maximum of 48 hours, exclusive of travelling time, although, on occasions, it will be necessary to work additional hours as necessary to satisfactorily complete the work in hand and achieve agreed targets. No overtime is paid, although time off in lieu may be granted in respect of excessive hours worked.

6. Motor Vehicle

The Company will supply a fully financed car in Dubai, at up to a cost of 1,750 Dhs per month, for the Employee's personal and business use, including funding the costs involved with all reasonable mileage.

7. Accommodation

- a. Whilst based in Dubai, the Company shall supply such accommodation for the Employee, his spouse and dependant children up to a cost of 45,000 Dhs per annum.
- b. The Employee agrees to treat the accommodation and furnishings provided in a proper manner and undertakes to meet the cost of any damage caused (fair wear and tear excepted).
- c. The cost of electricity, gas and mains water will normally be met by the Company, although the Company reserves the right to charge the employee for the supply of these utilities.
- d. The Employee shall be responsible for his own catering arrangements.

8. Travel and Expenses

- a. The Company will meet the costs of travel for the Employee, his spouse and immediate dependant children between Dubai and the United Kingdom at the termination of the Employee's stay in Dubai, howsoever caused. This entitlement will be forfeited if it is not exercised within one calendar month.
- b. The Company will meet the costs of travel for the Employee, his spouse and immediate dependent children between Dubai and another location should the Employee be required to relocate to another country at the Company's request.

- c. The Company will not be responsible for any costs of travel, excepting business travel, or for any other costs incurred within the United Kingdom or Dubai, whether associated with engagement, leave or repatriation, other than as set out elsewhere within this Agreement.

9. Leave Entitlement

The Employee shall be entitled to 56 days paid holiday per annum, inclusive of any local public holidays in the United Arab Emirates.

10. Leave Travel

- a. The Employee shall be supplied with airline tickets to facilitate leave travel to the United Kingdom on one occasion each twelve months for himself, his spouse and immediate dependant children.
- b. There will be no entitlement to cash in lieu of any unused leave travel tickets.
- c. The travel class adopted will be Economy and the type of ticket issued will be at the Company's discretion on an airline nominated by the Company.
- d. The Employee agrees to ensure that leave travel visits to the United Kingdom coincide with business travel visits to the United Kingdom wherever possible.

11. Baggage

- a. On the occasion of relocation to another country at the Company's request or on the occasion of final repatriation to the United Kingdom, the Company will meet the transportation costs of one consignment of unaccompanied freight sent by air (maximum weight/space 200 kg or 2 cubic metres) and one consignment of unaccompanied freight by sea (maximum 500 kg). These limits apply to personal belongings only and exclude any office equipment owned by the Company.
- b. The Company will not accept any costs in respect of excess baggage.

12. Children's Education

Upon supply to the Company of receipted invoices which meet with the Company's satisfaction and approval, 60.0% of the cost of school fees incurred by the Employee in respect of the education in Dubai of dependant children shall be reimbursed by the Company, subject to a maximum of 10,000 Dhs during the twelve months commencing 1st January 1994. These amounts shall be the subject of negotiation annually between the Company and the Employee in the light of the circumstances of the Employee's children's education and associated costs then prevailing.

13. Medical Examination

The Employee agrees to undergo a medical examination with a Medical Officer nominated by the Company, if ever so requested.

14. Medical Expenses

- a. Medical insurance cover shall be supplied by the Company in respect of the Employee, his spouse and immediate dependant children, utilising covered supplied by the Medicaire medical insurance company.

Cont/...

- b. Any essential medical treatment for the Employee will be paid for by the Company whilst he is resident in Dubai, but not during any period of leave (except for leave periods in the United Kingdom or Dubai). All costs of any dental treatment will be the Employee's responsibility.
- c. In the event that any medical treatment is arranged outside of Dubai, any costs involved will be the Employee's responsibility.
- d. The Employee is required to undergo such inoculations, vaccinations and preventive medical treatment as the Company, in consultation with its medical advisers, shall require.
- e. In the event that the Employee is prevented from working on the Company's behalf due to medical incapacity payment of salary will be maintained by the Company for up to a maximum of six months full pay and thereafter at the Company's sole discretion.

15. Pension

The Employee shall retain UK membership of the Company's Pension Scheme, making personal contributions, currently at the level of 4.0% of gross earnings.

16. Normal Retirement Age

Normal Retirement Age is 63 years. In the absence of other formal written advice being issued it shall be deemed that notice of termination of employment under this heading has been issued to the Employee twelve weeks ahead of his 63rd birthday.

17. Termination of Employment

-
- a. This Agreement may be terminated by three months notice in writing on either side. Such a communication issued to the Company should be sent by registered mail to the Company's registered office. Written notice issued by the Company shall be given to the Employee personally or sent by first class mail to his last known place of residence.

The Company reserves the right to make a payment in lieu of notice.

- b. Notwithstanding point a. above, the Company may summarily dismiss or suspend the Employee from his duties without pay and allowances, including any terminal gratuity, if the Employee should:
 - i. Fail to obtain or have withdrawn any necessary visas or work permits as may be required, as a result of his own negligence or actions;
 - ii. Wilfully neglect the interests of the Company;
 - iii. Drink spirituous or intoxicating liquors or take or use drugs to such extent as the Company may deem excessive or as likely to incapacitate the Employee, or the prevent him from properly performing his duties;
 - iv. Be guilty of misconduct or any conduct which is likely to be prejudicial to the interests of the Company;

Cont/...

- v. Be absent from duty without leave or any other valid reason, or be absent through illness for an aggregate period exceeding six Gregorian calendar months in any consecutive period of twelve Gregorian calendar months;
 - vi. Become, through his own fault (which shall include refusal or failure to undergo preventive treatment advised by the Medical Officer nominated by the Company) sick or disabled or otherwise unable properly to perform his duties or to do so without being a nuisance or menace to his fellow employees (a certificate from a properly qualified medical practitioner approved by the Company being sufficient evidence);
 - vii. Engage in any black market activities;
 - viii. Seriously offend against the laws or social customs of the country in which the Employee is employed;
 - ix. Refuse to undergo vaccinations, inoculations or other medical treatment which has been specified at any time by the Company's medical adviser;
 - x. Seriously or persistently breach the Terms and Conditions of the Employee's employment.
- c. The Employee undertakes at the time when his employment terminates to furnish the Company, prior to his return to the United Kingdom, with a list of all of his outstanding debts and the Company shall be entitled to recover from the Employee whether by deduction from amounts owed to the Employee or otherwise, any sums which the Company may at its discretion, pay in settlement of any outstanding debts the Employee has incurred in the employment location. The Employee will be required to enter into a separate written agreement covering this topic.
 - d. Should this contract be terminated for any reason the Employee shall deliver to the Company all books, documents, papers, materials and other property of the Company or any of its parent, associated or subsidiary companies in the Employee's possession or under his control.

18. Restrictive Covenants

- a. The Employee shall not at any time after the end of his employment:
 - i. Represent himself as being in any way connected with or interested in the business of the Company or its parent, associated or subsidiary companies;
 - ii. Either on his own account or for any other person, firm or company, solicit, interfere with or endeavour to entice away from the Company or any of its parent, associated or subsidiary companies any employee of the Company or its parent, associated or subsidiary companies.
- b. The Employee shall not (without the previous consent in writing of a member of Executive Management of the Company) for the period of twelve months after the end of his employment with the Company, either on his own account or for any other person, firm or company, solicit or endeavour to entice away from the Company or any of its parent, associated or subsidiary companies, any person, firm or company who or which in the preceding two years shall have been a customer or in the habit of dealing with the Company or any of its parent, associated or subsidiary companies.

19. Exclusive Employment

Employment with the Company excludes employment with any other organisation or person. The Employee may not accept additional employment from others, with or without remuneration, unless prior written permission has been obtained from the Company.

Such permission will only be granted where the circumstances are totally acceptable to the Company and where there can be no possible adverse effects on either the Company or the Employee's employment with the Company.

20. Confidentiality

Except as authorised by the Company in writing or upon the order of a court of competent jurisdiction the Employee shall keep secret and shall not, at any time (both during the period of his employment and after its termination for any reason whatsoever) use for the Employee's or another's advantage, or reveal to any person, any of the trade secrets or confidential operations, processes or dealings or any secret or confidential information concerning the organisation, business or finance of the Company, or its customers or any of the Company's parent, associated or subsidiary companies to which the Employee is seconded or from whom he takes instructions, so far as they shall have come to his knowledge during his employment with the Company or any parent, associated or subsidiary companies or organisations to whom the Employee is seconded or from whom he takes instructions.

21. Jurisdiction

This contract shall be governed by English law and both parties accept that the English courts shall have exclusive jurisdiction (both during the period of the Employee's period of this employment and following its termination for any reason whatsoever) to hear claims arising out of this contract, the employment or its termination.

Signed: /s/ Illegible Date: 10-5-94

For and on behalf of Rapiscan Security Products Limited

Signed: /s/ A S Crane Date: 10-5-94

Mr A S Crane Employee.

Undertaking by Mr A S Crane

I hereby undertake at the time when my employment with Rapiscan Security Products Limited terminates, to furnish to the Company, prior to my return to the United Kingdom, a list of all of the outstanding debts incurred by me associated with my employment by the Company.

I understand that the Company shall be entitled to recover from me any sums which the Company, at its discretion, pay in settlement of any outstanding debts that I may have incurred.

I hereby give permission for any such sum, or balance outstanding thereof, to be deducted by the Company from any monies due to me, including salary payments, in accordance with the terms of the Wage Act 1986.

Signed: /s/ A S Crane

Date: 10-5-95

A S Crane

INDEMNITY AGREEMENT

This Indemnity Agreement (the "Agreement") is made as of _____, by and between OSI Systems, Inc., a California corporation (the "Corporation"), and _____, an individual (the "Indemnitee"), a director and/or officer of the Corporation.

R E C I T A L S

A. The Corporation and the Indemnitee recognize that the interpretation of statutes, regulations, court opinions and the Corporation's Articles of Incorporation and bylaws is too uncertain to provide the Corporation's officers and directors with adequate guidance with respect to the legal risks and potential liabilities to which they may become personally exposed as a result of performing their duties in good faith for the Corporation.

B. The Corporation and the Indemnitee are aware of the substantial increase in the number of lawsuits filed against corporate officers and directors.

C. The Corporation and the Indemnitee recognize that the cost of defending against such lawsuits, whether or not meritorious, may impose substantial economic hardship upon the Corporation's officers and directors.

D. The Corporation and the Indemnitee recognize that the legal risks, potential liabilities and expenses of defense associated with litigation against officers and directors arising or alleged to arise from the conduct of the affairs of the Corporation are frequently excessive in view of the amount of compensation received by the Corporation's officers and directors, and thus may act as a significant deterrent to the ability of the Corporation to obtain experienced and capable officers and directors.

E. Section 317 of the California General Corporation Law, which sets forth certain provisions relating to the indemnification of officers and directors (among others) of a California corporation by such corporation, is specifically not exclusive of other rights to which those indemnified thereunder may be entitled under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise.

F. In order to induce capable persons such as the Indemnitee to serve or continue to serve as officers or directors of the Corporation and to enable them to perform their duties to the Corporation secure in the knowledge that certain expenses and liabilities that may be incurred by them will be

borne by the Corporation, the Board of Directors of the Corporation has determined, after due consideration and investigation of the terms and provisions of this Agreement and the various other options available to the Corporation and the Indemnitee in lieu of this Agreement, that the following Agreement is in the best interests of the Corporation and its shareholders.

G. The Corporation desires to have the Indemnitee serve or continue to serve as an officer and/or director of the Corporation, and the Indemnitee desires to serve or continue to serve as an officer and/or director of the Corporation provided, and on the express condition, that he is furnished with the indemnity set forth below.

A G R E E M E N T

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth below, the Corporation and the Indemnitee agree as follows:

1. Continued Service. The Indemnitee agrees to serve or continue to

serve as a director and/or officer of the Corporation for so long as he is duly elected or appointed or until such time as he resigns in writing, subject to the terms of any applicable employment agreement.

2. Definitions.

(a) The term "Proceeding" shall include any threatened, pending or completed action, suit or proceeding, whether brought in the name of the Corporation or otherwise and whether of a civil, criminal or administrative or investigative nature, including, but not limited to, actions, suits or proceedings brought under or predicated upon the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, their respective state counterparts or any rule or regulation promulgated thereunder, in which the Indemnitee may be or may have been involved as a party or otherwise by reason of the fact that the Indemnitee is or was a director and/or officer of the Corporation, by reason of any action taken by him or of any inaction on his part while acting as such director and/or officer, or by reason of the fact that he is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, whether or not he is serving in such capacity at the time any indemnified liability or reimbursable expense is incurred.

(b) The term "Expenses" shall include, but shall not be limited to, damages, judgments, fines, settlements and charges, costs, expenses of investigation and expenses of defense of legal actions, suits, proceedings or claims and appeals therefrom, and expenses of appeal, attachment or simi-

lar bonds. "Expenses" shall not include any judgments, fines or penalties actually levied against the Indemnitee which the Corporation is prohibited by applicable law from paying.

3. Indemnity in Third-Party Proceedings. Subject to Paragraph 8, the

Corporation shall indemnify the Indemnitee in accordance with the provisions of this Paragraph 3 if the Indemnitee is a party to, threatened to be made a party to or otherwise involved in any Proceeding (other than a Proceeding by the Corporation itself to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was a director and/or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against all Expenses actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such Proceeding, provided it is determined, pursuant to Paragraph 7 or by the court before which such action was brought, that the Indemnitee acted in good faith and in a manner that he reasonably believed to be in the best interests of the Corporation and, in the case of a criminal proceeding, had no reasonable cause to believe that his conduct was unlawful. The termination of any such Proceeding by judgment, order of court, settlement, conviction or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the Indemnitee did not act in good faith or in a manner that he reasonably believed to be in the best interests of the Corporation, and with respect to any criminal proceeding, that such person had reasonable cause to believe that his conduct was unlawful.

4. Indemnity in Proceedings by or in the Name of the Corporation.

Subject to Paragraph 8, the Corporation shall indemnify the Indemnitee against all Expenses actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of any Proceeding by or in the name of the Corporation to procure a judgment in its favor by reason of the fact that the Indemnitee was or is a director and/or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, but only if he acted in good faith and in a manner that he reasonably believed to be in the best interests of the Corporation and its shareholders; provided, however, that no indemnification for Expenses shall be made under this Paragraph 4 with respect to any claim, issue or matter as to which the Indemnitee shall have been adjudged to be liable to the Corporation, unless and only to the extent that any court in which such Proceeding is brought shall determine upon application that despite the adjudication of liability, but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper.

5. Indemnification of Expenses of Successful Party. Notwithstanding any

other provisions of this Agreement, to the extent that the Indemnitee has been successful on the merits or otherwise in defense of any Proceeding or in defense of any claim, issue or matter therein, including the dismissal of an action without prejudice, the Indemnitee shall be indemnified against all Expenses incurred in connection therewith.

6. Advances of Expenses. Expenses incurred by the Indemnitee pursuant to

Paragraphs 3 and 4 in any Proceeding shall be paid by the Corporation in advance of the determination of such Proceeding at the written request of the Indemnitee, if the Indemnitee shall undertake to repay such amount to the extent that it is ultimately determined that the Indemnitee is not entitled to indemnification.

7. Right of Indemnitee to Indemnification Upon Application; Procedure

Upon Application. Any indemnification or advance under Paragraph 3, 4 or 6

shall be made no later than 30 days after receipt of the written request of the Indemnitee therefor, unless a determination is made within said 30-day period by (a) the Board of Directors of the Corporation by a majority vote of a quorum thereof consisting of directors who were not parties to such Proceedings, or (b) independent legal counsel in a written opinion (which counsel shall be appointed if such a quorum is not obtainable) that the Indemnitee has not met the relevant standards for indemnification set forth in Paragraphs 3 and 4.

The right to indemnification or advances as provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. The Corporation shall bear the burden of proving that indemnification or advances are not appropriate. The failure of the Corporation to have made a determination that indemnification or advances are proper in the circumstances shall not be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The Indemnitee's Expenses incurred in connection with successfully establishing his right to indemnification or advances, in whole or in part, in any such Proceeding shall also be indemnified by the Corporation.

8. Indemnification Hereunder Not Exclusive.

(a) Notwithstanding any other provision of this Agreement, the Company shall not indemnify Indemnitee for any act or omission or transactions for which indemnification is expressly prohibited by Section 204(a)(11) of the California General Corporation Law.

(b) The right to indemnification provided by this Agreement shall not be exclusive of any other rights to which the Indemnitee may be entitled under the Corporation's Articles of Incorporation, bylaws, any agreement, any vote of

shareholders or disinterested directors, the California General Corporation Law or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. The indemnification under this Agreement shall continue as to the Indemnatee even though he may have ceased to be a director or officer, and shall inure to the benefit of the heirs and personal representatives of the Indemnatee.

9. Partial Indemnification. If the Indemnatee is entitled under any

provision of this Agreement to indemnification by the Corporation for a portion of his Expenses actually and reasonably incurred by him in any Proceeding but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnatee for the portion of such Expenses to which the Indemnatee is entitled.

10. Severability. If any provision of this Agreement or the application

of any provision hereof to any person or circumstance is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be revised to the extent (and only to the extent) necessary to make it enforceable, valid and legal.

11. Governing Law. This Agreement shall be governed by and construed in

accordance with the laws of the State of California, without giving effect to the principles of conflict of laws thereof.

12. Notices. The Indemnatee shall, as a condition precedent to his right

to be indemnified under this Agreement, give to the Corporation written notice as soon as practicable of any claim made against him for which indemnity will or could be sought under this Agreement. Notice to the Corporation shall be directed to OSI Systems, Inc., 12525 Chadron Avenue, Hawthorne, California 90250, Attention: President (or at such other address or to the attention of such other person as the Corporation shall designate in writing to the Indemnatee). Notices to the Indemnatee shall be sent to the Indemnatee at the address set forth after his name on the

signature page of this Agreement (or at such other addresses the Indemnitee shall designate in writing to the Corporation).

OSI SYSTEMS, INC.

By: _____

Title: _____

INDEMNITEE

(Print Name)

Address: _____

6.

DATED 4 July 1986

ELECTRICITY SUPPLY NOMINEES LIMITED

-and-

JOHN ADAMS ELECTRONICS LIMITED

L E A S E

of

Unit No. 1, Block B,
The Fleming Centre Fleming Way
Crawley West Sussex

(2528B)

MEMORANDUM OF REVIEWED RENT

DATE OF LEASE 4 July 1986
.....

PREMISES DEMISED.....
Unit Number 1 Block B and 30 Car Park Spaces
The Fleming Centre Fleming Way Crawley West Sussex
.....

PARTIES-LANDLORD:.....
Electricity Supply Nominees Ltd

TENANTS(S):.....
John Adams Electronics Ltd
.....

SURETY(IES):.....
The Norwich Union Life Insurance Society

PRESENT LANDLORD.....
(where Lease assigned)

Rapiscan Security Products Ltd

PRESENT TENANT(S).....
(where Lease assigned)

International Aeradio Ltd

SURETY(IES).....

THE RENT PAYABLE UNDER THE ABOVE MENTIONED LEASE HAS BEEN REVIEWED UNDER THE
PROVISIONS THEREOF AND THE PRINCIPAL RENT REMAINS THE SAME AT (pounds).....
94,000.00pa

(Ninety four thousand pounds per annum)
.....
25 March 1996

UNTIL NEXT REVIEW, WITH EFFECT FROM.....

.....
BY/FOR AND ON BEHALF OF THE TENANT
Rapiscan Security Products Ltd
.....

SIGNATURE ILLEGIBLE
.....

HEAD-NUIM PROPERTY (DOCUMENTATION) /S/ A.S. CRANE
.....
FOR AND ON BEHALF OF THE LANDLORD BY/FOR AND ON BEHALF OF THE SURETY(IES)*
International Aeradio Ltd

Date August 16th 1996 /s/ D.L.H STEEDS
.....

A RENT REVIEW MEMORANDUM TO BE ATTACHED TO A LEASE DATED THE 4TH DAY OF JULY 1986 AND MADE BETWEEN ELECTRICITY SUPPLY NOMINEES LIMITED (1) AND JOHN ADAMS ELECTRONICS LIMITED (2)

Premises know as Unit Number 1, Block B, The Fleming Centre, Fleming Way, Crawley, West Sussex

IT IS HEREBY AGREED AND DECLARED BETWEEN ELECTRICITY SUPPLY NOMINEES LIMITED whose registered office is at 30 Millbank London SW1P 4RD (being the party remaining entitled to the reversion immediately expectant upon the determination of the term granted by the within written lease) and INTERNATIONAL AERADIO LIMITED whose registered office is at Aeradio House Hayes Road Southall Middlesex UB2 5NJ (being the party now entitled to the benefit of the term granted by the within written lease) that pursuant to Clause 1 of and the Third Schedule to the within written lease the yearly rent reserved by the within written lease is from the 25th day of March 1991 payable at the rate of NINETY FOUR THOUSAND POUNDS ((pounds)94,000)) per annum subject to the provisions for further rent review contained in the within written lease

Dated this 26th day of March 1992

.....
Signed for and on behalf of
ELECTRICITY SUPPLY NOMINEES LIMITED

[SIGNATURE ILLEGIBLE]
.....
Signed for and behalf of
INTERNATIONAL AREADIO LTD

(5629I)

Appendix

By a Licence for Alterations dated 1st December, 1992 made between Electricity Supply Nominees Limited (1) and International Aeradio Plc (2) consent was granted to certain alterations upon the terms and conditions set out therein

9.

(77321)

4. Covenants by the Landlord

- (1) For quiet enjoyment
- (2) To provide certain services
- (3) To insure
- (4) To make good damage caused by Insured Risks

5. Provisos

- (1) Re-entry
- (2) Cesser of rent
- (3) Demise not to confer rights to enforce covenants against others or to grant further rights
- (4) Limitation of Landlord's liability for provision of Services
- (5) No warranty as to the Permitted Use
- (6) Limitation on Landlord's obligation to insure
- (7) Service of notices
- (8) Party Walls
- (9) As to arbitration in certain events
- (10) Exclusion of compensation
- (11) Impossibility of performance of certain covenants

6. Covenants by Guarantor

- | | | |
|---------------------|---|-------------------------------|
| The First Schedule | - | Rights Granted |
| The Second Schedule | - | Exceptions and Reservations |
| The Third Schedule | - | Rent Review Provisions |
| The Fourth Schedule | - | Stipulations and Restrictions |
| The Fifth Schedule | - | Service Charge |
| The Sixth Schedule | - | Covenants by Guarantor |

PARTICULARS

Column 1

Column 2

Date - ----	the 4th day of July One thousand nine hundred and eighty-six
the Landlord - -----	ELECTRICITY SUPPLY NOMINEES LIMITED whose registered office is at 30 Millbank London S.W.1.
the Tenant - -----	JOHN ADAMS ELECTRONICS LIMITED whose registered office is at Aeradio House, Hayes Road, Southall Middlesex
the Guarantor (if any) - -----	Not Applicable
the Term - -----	Twenty-five years from (and including) the Twenty-fifth day of March One thousand nine hundred and eighty-six
the Premises - -----	ALL THAT piece or parcel of land together with the building erected thereon or on some part thereof situate on the Estate (as hereinafter mentioned) known as Unit Number B1 WHICH piece of land is for the purpose of identification only delineated upon the plan annexed hereto and thereon verged in red
The Estate - -----	ALL THOSE premises known as The Fleming Centre situate at Fleming Way, Crawley, West Sussex and shown for the purpose of identification only upon the plan annexed hereto and thereon verged in blue iii.

the Initial Rent
- -----
the yearly rent of Sixty-five thousand pounds
((pounds) 65,000) the first payment in respect
of the period from the First day of July One
thousand nine hundred and eighty-six to the
Twenty-ninth day of September One thousand
nine hundred and eighty-six to be made on the
date hereof

Review Dates
- -----
the fifth tenth fifteenth and twentieth
anniversaries of the commencement date of the
Term

Initial Loss
of Rent Period
- -----
Three years

Number of Parking
Spaces
- -----
30 parking spaces for private cars

Internal Decoration
Year
- -----
the fifth year of the Term and each subsequent
fifth year thereafter

External Decoration
Years
- -----
the third year of the Term and each subsequent
third year thereafter

the Permitted Use
- -----
Light Industrial Use within the meaning of Use
Class III of the Town and Country Planning
(Use Classes) Order 1972 (as enacted at the
date thereof) or warehousing use within Class
X of such order (subject to all necessary
planning permissions being obtained)

Service Charge
Proportion
- -----
the proportion which the gross external floor
area of the building comprised in the Premises
bears to the total gross external floor area or
all the premises on the Estate (other than
those parts thereof ??? for the provision of
services for the Estate) let or intended to
be

Service Charge Accounting Day - - - - -	the 25th day of March in each year
Estate Opening Date (if any) - - - - -	the 25th day of March One thousand nine hundred and eighty-six
Service Charge Commencement Date - - - - -	the first day of July One thousand nine hundred and eighty-six
the Relevant Documents (if any) - - - - -	the deeds and documents specified in the Property and Charges Register of Title Number WSX72441
Quarter Days - - - - -	the 25th day of March the 24th day of June the 29th day of September and the 25th day of December in each year
Stipulated Rate - - - - -	the rate of Six per centum (6%) per annum above the base rate of National Westminster Bank plc for time being in force

v.

THIS LEASE is made on the date first shown in the [SEAL APPEARS HERE]
Particulars hereto between the Landlord specified in the Particulars of the
first part the Tenant specified in the Particulars of the second part and the
Guarantor (if any) specified in the Particulars of the third part

NOW THIS DEED WITNESSETH as follows:

INTERPRETATION AND DEFINITIONS

- - - - -

1. (1) (a) WHERE there are at any time two or more persons included
in the expression "Tenant" or the expression "Guarantor" covenants expressed to
be made by the Tenant or the Guarantor as the case may be shall be deemed to be
made by such persons jointly and severally

(b) Any reference to any Act or Acts of Parliament or legislation
generally shall include any modification extension or re-enactment thereof for
the time being in force and shall also include all instruments orders plans
regulations bye-laws permissions licences consents notices and directions or
other things for the time being made issued or given thereunder or deriving
authority therefrom

(c) Any covenant or obligation by or of the Tenant not to do or omit to
be done any act matter or thing shall be deemed to include an obligation not to
permit or suffer such act matter or thing to be done or not to permit or
suffer the omission of such act matter or thing as the case may be

(d) The Clause or Paragraph headings or marginal notes and the Index
(if any) to this Lease shall not affect the construction thereof

(2) In this Deed the following expressions shall (where the context so admits)
have the following meanings:

(a) "the Particulars" means the details and descriptions appearing in

the foregoing pages which comprise part of this Lease and the words and

expressions in Column 1 of the Particulars shall (subject as hereinafter provided) have the meanings respectively set against them in Column 2 or the Particulars

(b) "the Landlord" means the person named as the Landlord in the

Particulars and includes any other person for the time being entitled to the reversion immediately expectant upon the determination of the Term

(c) "the Tenant" means the person named as the Tenant in the

Particulars and includes the successors in title of the Tenant and those deriving title under the Tenant

(d) "the Guarantor" means the person (if any) named as the Guarantor

in the Particulars or (as the case may require) any other person who shall for the time being have covenanted for the due observance and performance of the tenants covenants contained in this Lease

(e) "the Term" means the Term specified in the Particulars and

includes any statutory extension thereof

(f) "the Demised Premises" means the Premises described in the

Particulars and each and every part thereof and all additions and alterations which may be carried out during the Term and all landlord's fixtures and fittings from time to time in or about the same

(g) "the Rent" means the Initial Rent specified in the Particulars or

such greater yearly rent as shall be agreed or determined in accordance with the provisions of the Third Schedule hereto

(h) "the Insured Risks" means (subject as hereinafter provided in

this Lease) the risks in respect of loss or damage by fire lightning storm tempest flood explosion impact from vehicles aircraft and articles dropped therefrom riot malicious damage civil commotion earthquake (fire and shock) bursting or overflowing of water tanks apparatus or pipes and such other risks as

the Landlord may from time to time reasonably deem expedient

(i) "the Loss of Rent Period" means the Initial Loss of Rent Period

specified in the Particulars or such other period as the Landlord may from time to time reasonably require (including in each case if applicable any period subsequent to the termination of the Term)

(j) "the Parking Spaces" means the number of Parking Spaces (if any) on

the Estate as are specified in the Particulars as shall from time to time be allocated for use by the Tenant by notice in writing given by the Landlord or the Landlord's managing agents to the Tenant

(k) "Stipulated Rate" means the Stipulated Rate specified in the

Particulars or if at any time no rate shall be ascertainable under the formula so specified the Stipulated Rate shall be such reasonably equivalent rate of interest as the Landlord and the Tenant shall agree upon or in the absence of agreement within a reasonable time of the occasion for such agreement arising the matter shall be referred for determination by a single arbitrator pursuant to the Arbitration Acts 1950 and 1979 to be appointed in the absence of agreement between the Landlord and Tenant on the application of either of them by the President for the time being of The Law Society

(k) "the Quarter Days" means the Quarter Days specified in the Particulars

and the expression "Quarter" shall be construed by reference thereto

(l) "Conduits" means pipes wires ducts cables channels sewers drains

watercourses gutters shafts flues or other conducting media under through along over or by means of which any gas electricity or other power source or any air water soil telephonic signal and the like or other thing may pass

(m) "Perpetuity Period" means the period of eighty years commencing on the

date of this Lease which shall be the perpetuity period applicable hereto

(n) "the termination of the Term" means the determination of the Term

whether by effluxion of time re-entry or otherwise howsoever

DEMISE

2. IN consideration of the Rent and of the covenants on the part of the Tenant hereinafter contained the Landlord HEREBY DEMISES unto the Tenant ALL THAT the Demised Premises TOGETHER WITH so far as the Landlord has power to grant the same the easements and rights specified in the First Schedule hereto BUT EXCEPTING AND RESERVING the easements and rights specified in the Second Schedule hereto TO HOLD the same SUBJECT to (a) all easements rights quasi-easements privileges covenants and restrictions to which the Demised Premises are or may be subject and (b) the provisions of the Relevant Documents specified in the Particulars unto the Tenant for the Term (subject to determination as hereinafter provided) YIELDING AND PAYING therefor during the Term FIRST yearly and proportionately for any part of a year the Rent which shall be payable by equal quarterly payments in advance on the Quarter Days the first of such payments or a proportionate part thereof to be due on the date specified in the Particulars and to be in respect of the period therein mentioned SECONDLY by way of additional rent all sums covenanted to be paid pursuant to Clause 3(5) hereof THIRDLY all sums covenanted to be paid pursuant to Clause 3(6) hereof and FOURTHLY interest payable pursuant to Clause 3(2) hereof on the Rent and additional rents hereby reserved

CONVENANTS BY THE TENANT

3. THE Tenant HEREBY CONVENANTS with the Landlord as follows:

4.

To pay the Rent

(1) To pay the Rent at the times and in the manner herein provided without any deduction or set off whatsoever

To pay interest

(2) Without prejudice to any other right remedy or power herein contained or otherwise available to the Landlord if the Rent or any additional rents hereby reserved or any part thereof or any other sums payable to the Landlord pursuant to this Lease or any part thereof shall have become due and shall remain unpaid as to the Rent or additional rents hereby reserved for seven days or as to the said other sums for fourteen days after in each case the due date for payment to pay to the Landlord on demand interest thereon at the Stipulated Rate (as well after as before judgment) for the period from the date when the same shall have become due (unless otherwise provided for herein) to the date of receipt by the Landlord

To pay Value Added Tax

(3) To pay to the Landlord such amount of Value Added Tax (or similar tax or taxes) at the rate for the time being in force as shall be payable in respect of all moneys covenanted to be paid by the Tenant hereunder and in every case where in this Lease the Tenant covenants to pay an amount of money such amount shall be regarded as exclusive of value Added Tax (or other tax or taxes) which may from time to time be payable thereon

To pay outgoings

(4) To pay all rates taxes duties levies charges assessments impositions and outgoings whatsoever whether parliamentary county municipal parochial local or of any other description which are now or hereafter during the Term may be taxed assessed charged or imposed in respect of the Demised Premises or the Parking Spaces or on the owner or occupier in respect thereof (other than taxes

payable in respect of any dealing with any reversion to this Lease) In the event of there being no separate assessment for the Demised Premises or the Parking Spaces the Tenant shall pay such proportion of such rates taxes duties levies charges assessments impositions and outgoings as the Landlord or the Landlord's managing agents shall determine as being reasonably attributable to the same

To pay service charge

(5) To pay to the Landlord by way of additional rent a charge in respect of services ascertained as provided in the Fifth Schedule hereto and payable at the times therein mentioned

As to insurance

(6) (a) To pay to the Landlord on demand by way of additional rent in respect of each year during the Term:

(i) a sum (or in the event that the Demised Premises shall be insured with other premises belonging to the Landlord a proportionate part of the total sum such proportion being conclusively determined by the Landlord or the Landlord's managing agents) equivalent to the amount from time to time assessed by the Landlord's insurers as being payable by the Landlord by way of premium for keeping the Demised Premises insured for an amount (estimated from time to time by the Landlord or the Landlord's managing agents) necessary to cover the full costs of rebuilding or reinstating the Demised Premises against loss or damage by the Insured Risks together with architects' surveyors' engineers' and other professional fees

(ii) a sum (or in the event that the loss of the Rent hereinafter mentioned is not separately insured a proportionate part of the total sum such proportion being conclusively determined by the Landlord or the Landlord's managing agents) equivalent to the amount from time to time assessed by the Landlord's

insurers as being payable by the Landlord by way of premium for insuring the loss of the Rent (including if applicable loss of rent subsequent to the termination of the Term) for the Loss of Rent Period including the Landlord's or the Landlord's managing agents' estimate thereof where a part of the period in respect of which loss of rent insurance is or is to be effected by the Landlord is subsequent to a date or dates when the Rent fails to be reviewed pursuant to the provisions of the Third Schedule hereto or subsequent to the termination of the Term and

(iii) any sum or sums by which the amount from time to time payable by way of premium by the Landlord (or the lessees or tenants of the Landlord) in respect of the insurance of any other part of the Estate or of any adjoining or neighbouring premises is increased by reason of the user of the Demised Premises or by reason of any act default or omission on the part of the Tenant or other occupiers of the Demised Premises or their respective servants or agents

(b) To comply forthwith with all proper requirements of the Landlord's insurers for the better protection of the Demised Premises of which notice in writing shall be given to the Tenant whether the same relate to the Demised Premises or to the use thereof or to any fixtures fittings equipment chattel or thing whatsoever therein or thereon and to do or execute or cause to be done or executed all such works acts deeds matters or things required by such notice to the satisfaction of the Landlord and the Landlord's insurers

(c) Not to do or omit to be done any act matter or thing whatsoever the doing or omission of which would make void or voidable the insurance of the Demised Premises or any other premises on the Estate and any fixtures fittings plant machinery equipment and other installations in or about the same or whereby any

payment thereunder may be refused in whole or in part or whereby the premium payable in respect of such policy may be increased

(d) In the event of the Demised Premises or any part thereof being destroyed or damaged by any of the Insured Risks to give notice thereof to the Landlord as soon as such destruction or damage shall come to the notice of the Tenant

(e) In the event of the Demised Premises or any other premises on the Estate being destroyed or damaged by any of the Insured Risks and the insurance money under any insurance against the same effected thereon by the Landlord being wholly or partly irrecoverable by reason solely or in part of any act or default of the Tenant or other occupiers of the Demised Premises or their respective servants or agents forthwith to pay to the Landlord the whole or (as the case may require) the irrecoverable portion of the cost (including professional and other fees) of completely rebuilding and reinstating the same

(f) Not to effect or maintain or contribute towards the maintenance of any insurance on or in respect of the Demised Premises in duplication of any insurance effected and maintained by the Landlord PROVIDED ALWAYS that without prejudice to the foregoing and any right of action or remedy in respect of any breach thereof if at any time the Tenant is entitled to the benefit of any such insurance on the Demised Premises to pay or procure to be paid to the Landlord all moneys received by virtue of such insurance and to hold the benefit of such policy and moneys payable thereunder in trust to be applied towards rebuilding or reinstating the Demised Premises

To comply with statutes

7 (a) To comply with all obligations imposed by and do and execute or cause to be done and executed all

such works acts deeds matters and things as under or by virtue of any Act or Acts of Parliament or legislation are or shall be properly directed or necessary to be done or executed upon or in respect of the Demised Premises or any part thereof or the use thereof whether by the owner the landlord tenant or occupier and at all times to keep the Landlord indemnified against all costs claims demands and liability in respect thereof

(b) Upon receipt of any notice order proposal requisition direction or other thing from any competent authority affecting or likely to affect the Demised Premises or the user thereof at the Tenant's own expense forthwith to deliver to the Landlord a copy of such notice order requisition direction or other thing And at the request of the Landlord to make or join with the Landlord in making such representations in respect thereof as the Landlord shall deem expedient

As to the Town & Country
Planning Acts 1971-1974

(8) In relation to the Town & Country Planning Acts 1971-1974

(a) not to do or omit to be done any act matter or thing on or in connection with the Demised Premises the doing or omission of which shall be a contravention of the said Acts and to indemnify the Landlord against all actions proceedings damages penalties costs charges claims and demands in respect of such acts and omissions or any of them and against the costs of any application for planning permission and the works and things done in pursuance thereof

(b) to give notice forthwith to the Landlord of any notice order or proposal for a notice or order served on the Tenant under the said Acts and if so required by the Landlord to produce the same and at the request of the Landlord to make or join in making such representations in respect thereof as the Landlord may

require

(c) to comply at the Tenant's own cost with any notice or order under the said Acts

(d) not to make any application for planning permission in respect of the Demised Premises or any part thereof and without prejudice to the foregoing not to implement any planning permission or approval until the same has been submitted to and approved by the Landlord Provided that approval to such application or implementation shall not be unreasonably withheld for a change of use or works which are otherwise authorised under this Lease

(e) unless the Landlord shall otherwise direct to carry out before the termination of the Term any works stipulated to be carried out to the Demised Premises whether before or subsequent thereto as a condition of any planning permission which may have been granted during the Term

(f) not to enter into any agreement with any competent authority regulating the development or use of the Demised Premises

As to repairs and decoration

(9) (a) At all times during the Term well and substantially to repair maintain cleanse and amend in every respect and to keep so repaired maintained cleansed and amended the Demised Premises and when requisite rebuild or renew the same

(b) Not less often than once in each Internal Decoration Year specified in the Particulars during the Term and in the last year of the Term (howsoever determined) to prepare and paint with two coats at least of the best quality paint or otherwise treat all internal parts of the Demised Premises usually or requiring to be painted or otherwise treated AND so that in the last year of the Term (howsoever determined) the tints colours and patterns of all such works of

internal painting and decoration shall be such as shall be approved in writing by the Landlord

(c) Not less often than once in each External Decoration Year specified in the Particulars during the Term and in the last year of the Term (howsoever determined) to prepare and paint or otherwise treat all exterior parts of the Demised Premises usually or requiring to be painted or otherwise treated with two coats at least of best quality undercoat paint and one coat of best quality gloss paint or other suitable material (all such painting and treating to be carried out in accordance with a specification and colour scheme previously approved in writing by the Landlord) and also in like manner as often as in the opinion of the Landlord shall be reasonably necessary to clean the exterior of the Demised Premises by such method as shall be previously approved by the Landlord in writing

(d) To carry out all work hereunder with the best materials of their several kinds and in accordance with the best standards of workmanship

(e) To inform the Landlord immediately in writing of any defect in the Demised Premises which might give rise to a duty imposed by Common Law or Statute on the Landlord in favour of the Tenant or any other person

(f) To yield up the Demised Premises at the termination of the Term in good and substantial repair and condition in accordance with covenants on the Tenant's part herein contained and in case any of the Landlord's fixtures and fittings shall be missing broken damaged or destroyed forthwith to replace them with others of a similar character and quality and remove every moulding sign writing or painting of the name or business of the Tenant or other occupiers (if any) and to make good all damage caused by the removal thereof and of the Tenant's fixtures fittings furniture and

effects

(g) Provided Always that the Tenant's liability hereunder shall not extend to damage caused by any of the Insured Risks save to the extent that the insurance moneys are rendered irrecoverable in consequence of any act or default or omission of the Tenant or other occupiers of the Demised Premises or their respective servants or agents or save by reason of some limitation or condition of the kind hereinafter mentioned

As to alterations

(10) (a) Not to make any alteration or addition whatsoever to the Demised Premises Provided that the Tenant shall be entitled with the previous written consent of the Landlord which shall not be unreasonably withheld (but which may be subject to such reasonable conditions as the Landlord shall specify) to carry out internal non-structural alterations to the building comprised in the Demised Premises

(b) Without prejudice to the foregoing sub-clause by the termination of the Term (unless the Landlord otherwise requires) to remove all alterations and additions whatsoever (or such of them as the Landlord shall stipulate) and to reinstate the Demised Premises to their condition prior to the execution thereof all such work to be carried out in a good and workmanlike manner to the satisfaction of the Landlord

As to signs and advertisements

(11) Not to paint write place affix attach or exhibit any figure letter pole flag signboard advertisement inscription bill placard or sign whatsoever in onto or in front of any part of the Demised Premises other than a sign on the exterior of the building comprised in the Demised Premises in such position and being of such materials size design and colour as the Landlord or the Landlord's managing agents shall in the Landlord's

absolute discretion direct

As to user

(12) (a) Not to use the Demised Premises otherwise than for the Permitted Use specified in the Particulars

(b) Not to use the Parking Spaces otherwise than for the parking of vehicles of the type specified in the Particulars belonging to the person for the time being entitled to beneficial occupation of the Demised Premises its employees or visitors

(c) Not to carry on upon the Demised Premises any noisy noisome or offensive trade business or occupation nor to do any act or thing which is or may be or become a nuisance annoyance disturbance or damage to the Landlord or the occupiers of any adjoining or neighbouring premises of the Landlord or which in the reasonable opinion of the Landlord shall prejudicially affect or depreciate any such adjoining or neighbouring premises and not to use the Demised Premises at any time for any illegal or immoral purpose nor for a sale by auction nor to permit any person to sleep therein

As to dealings

(13) (a) In this sub-clause the expression "sub-lease" means a sub-lease whether immediately or mediately derived out of this Lease and "sub-let" or "sub-letting" or "sub-lessor" or sub-lessee" shall be construed accordingly

(b) There shall not at any time be any assignment transfer sub-letting parting with or sharing of possession or occupation of the whole or of any part of the Demised Premises (whether by the Tenant or any person deriving title through or under the Tenant) PROVIDED THAT:

(i) if all the covenants and provisions hereinafter contained in this sub-clause are complied with the following transactions will be permitted with the previous consent in writing of the

Landlord which shall not be unreasonably withheld:

(I) an assignment of the whole of the Demised Premises

(II) a sub-lease of the whole of the Demised Premises or an assignment thereof

(ii) the Tenant or any permitted sub-lessee shall be entitled to share occupation of the Demised Premises with other companies within the same group (within the meaning assigned thereto by Section 42(1) of the Landlord and Tenant Act 1954) as the Tenant or the permitted sub-lessee PROVIDED THAT

(I) no tenancy is thereby created

(II) the Tenant shall give to the Landlord not less than one month's prior written notice of such proposed occupation and the cessation thereof and

(III) any such occupation of the Demised Premises or any part thereof shall cease upon the company in occupation ceasing to be a member of the same group of companies as the Tenant or the permitted sub-lessee as the case may be whereupon such company shall forthwith vacate the Demised Premises or such part thereof of which it is in occupation

(c) Prior to the assignment of the whole of the Demised Premises or the assignment of a sub-lease thereof the intended assignee shall covenant with the Landlord during the residue of the Term to observe and perform all the covenants on the part of the Tenant (except as to the Rent and sums payable hereunder in respect of insurance and services in the case of an assignment of a sub-lease of the Demised Premises) and the conditions contained in this Lease

(d) (i) If an intended assignee of the whole of the Demised Premises shall be a limited

liability company then if the Landlord shall reasonably require there shall be provided a guarantor or guarantors sufficient in the reasonable opinion of the Landlord for such company and

(ii) such guarantor or guarantors shall prior to such assignment but with effect therefrom (jointly and severally if more than one) enter into covenants with the Landlord in the form set out in Part I of the Sixth Schedule hereto but subject as mentioned in Part 2 of that Schedule

(e) No sub-lease shall be granted otherwise than at the best rent reasonably obtainable in the open market (exclusive of all outgoings) with the most frequent rent reviews (but not at less frequent intervals than and in similar form to the rent reviews under this Lease) reasonably obtainable in the open market and without taking any fine or premium

(f) There shall not be any sub-lease unless:

(i) the intended sub-lessee shall have covenanted with the intended sub-lessor and the Landlord hereunder respectively as follows:

(I) not to assign transfer sub-let or part with or share possession or occupation of the Demised Premises in any manner which is inconsistent with the provisions of this sub-clause and then only with the previous consent in writing of the Landlord which shall not be unreasonably withheld

(II) to observe and perform the covenants on the part of the Tenant contained in this Lease (other than as to the Rent and sums payable hereunder in respect of insurance and services) so far as the same are not inconsistent with any other provision of this sub-clause

(ii) the form of the sub-lease shall have been previously approved in writing by the Landlord

Which shall not be unreasonably withheld

(g) Not to be party or privy to any agreement or arrangement for the commutation in whole or in part of any annual rent to be reserved and made payable on any sub-letting and no rent reserved by a sub-lease shall be payable more than one quarter in advance

(h) To notify the Landlord not less than one month nor more than three months prior to any agreement by the Tenant with a sub-lessee for the continuation of the rent payable by such sub-lessee for a further period or for an alteration in such rent

(i) Not to make any variation to any sub-lease without the previous consent in writing of the Landlord which shall not be unreasonably withheld

(j) To observe and perform all the obligations imposed on the Tenant as sub-lessor under any sub-lease and to ensure the due performance by any sub-lessee of all the obligations under any sub-lease

(k) From time to time on demand during the Term to furnish the Landlord with particulars of any derivative interest of or in the Demised Premises including particulars of the rents payable in respect thereof and such copy documents as the Landlord may require in respect thereof

(l) Within twenty-eight days after any assignment transfer sub-lease charge or other devolution of the title to the Demised Premises to give notice in writing with particulars to the solicitor for the time being of the Landlord and to produce to him with such notice such assignment or transfer or the counterpart of such sub-lease or the Probate or Letters of Administration or other document effecting such devolution (together with a copy thereof for his retention) and to pay to him his reasonable fee (not being less than fifteen pounds (pounds 15)) for the registration of each such deed or document

New Guarantor

(14) With fourteen days of the death during the Term of any person who has or shall have guaranteed to the Landlord the payment of the Rent and the observance and performance of the covenants on the part of the Tenant herein contained or of such person becoming bankrupt or having a Receiving Order made against him or being a company passing a resolution to wind up or entering into liquidation or suffering a receiver of any of its assets to be appointed then to give notice thereof to the Landlord and without prejudice to any other right or remedy of the Landlord if so required by the Landlord at the expense of the Tenant within twenty-eight days to procure that some other person acceptable to the Landlord shall enter into covenants with the Landlord in the form set out in Part 1 of the Sixth Schedule hereto but subject as mentioned in Part 2 of that Schedule

To permit entry by the
Landlord and others

(15) (a) To permit the Landlord and all persons authorised by the Landlord with all necessary appliances at all reasonable times (but after at least twenty-four hours prior written notice except in emergency) to enter the Demised Premises for the purpose of viewing the state and condition thereof or of inspecting any works in progress and in case there shall be found any defects disrepair removal of fixtures or unauthorised alterations or additions or work not conforming with any consent or licence given by the Landlord or any other breach of any of the covenants on the part of the Tenant herein contained to carry out after receipt notice in writing in that behalf and within such reasonable period as shall be specified in such notice such repairs works replacements or removals or take such other steps as may be necessary to remedy any such breach to the satisfaction of the Landlord and in case of default the

Landlord may itself execute such repairs works replacements and removals or take such other steps as aforesaid and the costs (including professional fees and other expenses) incurred by the Landlord in so doing shall on demand be paid by the Tenant to the Landlord together with interest at the Stipulated Rate (as well after as before judgment) calculated from the date of expenditure by the Landlord to the date of receipt by the Landlord

(b) To permit the Landlord and all persons authorised by the Landlord from time to time at all reasonable times (but after at least twenty-four hours prior written notice except in emergency) to enter and remain upon the Demised Premises with all necessary appliances

(i) to execute work to any adjoining or neighbouring property of the Landlord

(ii) to construct alter maintain repair renew or fix any thing serving or intended to serve the Demised Premises or any adjoining or neighbouring property and running through or intended to run through under on or over the Demised Premises

(iii) for the purpose of taking inventories of the Landlord's fixtures and things to be yielded up at the termination of the Term

(iv) to inspect the progress of any works undertaken by the Tenant pursuant to any obligation under this Lease or any licence or consent given pursuant to the terms hereof or otherwise and/or to prepare any Schedule of works specifications or estimates required by the Landlord prior to or in contemplation of the exercise by the Landlord of any rights of entry of the Landlord in case of the Tenant's default the persons entering causing as little disturbance to the Tenant as reasonably possible and forthwith making

good any damage caused to the Demised Premises

(c) To permit the Landlord and all others authorised by the Landlord at all times to enter and remain upon or pass through the Demised premises for the purpose of carrying out or in connection with the Services and other matters mentioned in the Fifth Schedule hereto or for the purpose of complying with any covenant on the part of the Landlord herein contained

(d) (i) To permit the Landlord during the twelve months immediately preceding the termination of the Term to affix and retain without interference to any part of the exterior of the Demised Premises (but so as not unduly to obscure the windows thereof or interfere with the Tenant's use thereof) a notice for re-letting the same and during the said twelve months to permits persons with written authority from the Landlord or the Landlord's agents at reasonable times of the day to view the demised premises

(ii) At all convenient hours in the daytime to permit all prospective purchasers of or dealers in the Landlord's reversionary interest by order in writing of the Landlord or the Landlord's agents to view the Demised Premises without interruption subject to at least twenty-four hours written notice being given

As to the payment of certain
costs and as to indemnities

(16) (a) To pay all costs fees expenses and commission (including bailiff's commission) incurred by the Landlord incidental to or in connection with any of the following:

(i) the preparation and service of any notice under Section 146 of the Law of Property Act 1925 or incurred in or in contemplation of proceedings under Section 146 or 147 of that Act notwithstanding in any such case that forfeiture may be avoided otherwise than by relief granted by the court

(ii) the preparation and service of any notice or schedule relating to dilapidations whether the same is served before or after the termination of the Term

(iii) the enforcement of any of the Tenant's covenants and conditions herein contained whether during the currency of or after the termination of the Term

(iv) any application for a licence or consent required hereunder from the Landlord whether or not such licence or consent shall be forthcoming

(b) To pay and make good to the Landlord all and every loss and damage whatsoever incurred or sustained by the Landlord as a consequence of any breach or non-observance of the Tenant's covenants herein contained and to indemnify the Landlord from and against all actions claims liability costs and expenses thereby arising

(c) To indemnify and keep indemnified the Landlord from liability in respect of any injury to or the death of any person damage to any property movable or immovable the infringement disturbance or destruction of any right easement or privilege or otherwise by reason of or arising directly or indirectly out of the repair or state of repair (which is the Tenant's responsibility hereunder) of the Demised Premises and all claims and demands of whatsoever nature in respect of any such liability

(d) To be responsible for and to indemnify the Landlord against all damage occasioned to the Demised Premises or any part of the Estate caused by any act default or negligence of the Tenant or the servants agents licensees or invitees of the Tenant

(e) To indemnify the Landlord against any taxes charges or other assessments payable in respect of any change of use or works (as the case may be)

permitted by or by reason of this Lease or by reason of any licence granted to the Tenant or by reason of the obtaining of any consents required to be obtained under the terms of any such licence

(f) To pay the proper costs of the Landlord's Solicitor and necessary disbursements in connection with the grant of this Lease and the stamp duty on the counterpart thereof

To comply with further stipulations restrictions and regulations

(17) (a) To comply at all times with the stipulations and restrictions set out in the Fourth Schedule hereto

(b) To comply with such reasonable regulations as the Landlord or the Landlord's managing agents shall from time to time make for the general convenience of the tenants and occupiers of the Estate and the good management thereof.

To comply with the provisions of the Relevent Documents

(18) To observe and perform the provisions of the Relevant Documents insofar as the same affect the Demised Premises and to indemnify the Landlord against all actions proceedings costs claims and demands in respect thereof

COVENANTS BY THE LANDLORD

4. THE Landlord HEREBY COVENANTS with the Tenant as follows:

For quiet enjoyment

(1) That the Tenant paying the Rent and observing and performing the several covenants and stipulations herein on the Tenant's part contained shall peaceably hold and enjoy the Demised Premises during the Term without any lawful interruption by the Landlord or any person rightfully claiming under or in trust for the Landlord

To provide certain services

(2) Subject as hereinafter provided and subject always to the due payment of the Rent and all other moneys payable hereunder to keep in good repair cleansed and adequately lit the common roads and accessways and common Conduits on the Estate and the Parking spaces

To insure

(3) Subject to the due payment of the Rent and all other moneys payable hereunder at all times to keep the Demised Premises insured (or procure that the same are kept insured) with reputable insurers in the full costs of reinstatement against loss or damage by the Insured Risks together with architects' surveyors' engineers' and other professional fees and also the loss of the Rent for the loss of Rent period and upon request to supply to the Tenant sufficient particulars of such insurance and evidence that the policy is on foot

To make good damage
caused by insured Risks

(4) In the event of the Demised Premises being destroyed or damaged by any of the Insured Risks and subject to the previous compliance by the Tenant with the covenants of the Tenant as to insurance hereinbefore contained and provided that the Landlord's insurance has not been vitiated or payment thereunder refused in whole or part as a result of any act default or omission on the part of the Tenant or other occupiers of the Demised Premises or their respective servants or agents with all due diligence to use the Landlord's best endeavours to procure that any necessary building licence and permits under any regulations or enactment for the time being in force are obtained to enable the Landlord to rebuild and reinstate the Demised Premises and as soon as such licences and permits have been obtained and provided the same remain unrevoked and subject to all necessary labour and materials being available to pay out (or

procure such payment out) of all moneys received in respect of such insurance (other than for architects' surveyors' and other professional fees and loss of rent) in rebuilding reinstating replacing and making good the Demised Premises And in case the insurance moneys shall be insufficient for that purpose the Landlord shall make up the deficiency out of the Landlord's own moneys

PROVISOS
- - - - -

5. PROVIDED ALWAYS AND IT IS HEREBY AGREED that
Re-entry
- - - - -

(1) (a) if the Rent or the moneys secondly thirdly or fourthly hereby reserved or any part thereof or any other sum payable by the Tenant pursuant to any provision contained in this Lease or any part thereof shall at any time be in arrear and unpaid for twenty-one days after the same shall have become due (whether or not any formal or legal demand therefor shall have been made) or

(b) if the Tenant or the Guarantor shall at any time fail to perform or observe any of the covenants conditions or agreements herein contained and on the part of the Tenant or the Guarantor to be performed and observed or

(c) if the Tenant or the Guarantor (being a company) shall enter into liquidation whether compulsory or voluntary (not being a voluntary liquidation for the purposes of amalgamation or reconstruction) or permit or suffer a receiver of any of the assets of the Tenant or the Guarantor to be appointed or permit or suffer any execution to be levied on the Demised Premises or enter into any arrangement or composition for the benefit of the creditors of the Tenant or the Guarantor or

(d) if the Tenant or the Guarantor (not being a company) shall become bankrupt or have a receiving order made against the Tenant or the Guarantor

THEN it shall be lawful for the Landlord or any persons duly authorised by the Landlord to re-enter upon the Demised Premises or any part thereof in the name of the whole and peaceably to hold and enjoy the same thenceforth as if this Lease had not been made without prejudice to any right of action or remedy of the Landlord in respect of any antecedent breach of any of the Tenant's covenants

Cesser of Rent

(2) In the event of the Demised Premises or any part thereof at any time during the Term being damaged or destroyed by any of the Insured Risks so as to be rendered unfit for use then (unless the policy moneys become irrecoverable in whole or in part through any act default or omission of the Tenant or other occupiers of the Demised Premises or their respective servants or agents and subject as hereinafter provided in this Clause) the Rent or a fair proportion thereof according to the nature and extent of the damage sustained shall be suspended until the Demised Premises shall again be fit for use or the end of the Loss of Rent Period (whichever shall first occur) and any dispute concerning this sub-clause shall be determined by a single arbitrator in accordance with the Arbitration Acts 1950 and 1979 to be appointed (in the absence of agreement) upon the application of either the Landlord or the Tenant by the President for the time being of the Royal Institution of Chartered Surveyors

Demise not to confer rights to enforce covenants
against others or to grant further rights

(3) Nothing herein contained shall confer on the Tenant any right to the benefit of or to enforce any covenant or agreement contained in any lease or any other instrument relating to any other part or parts of the Estate or to any other premises belonging to the

Landlord or limit or affect the right of the Landlord to deal with the same now or at any time hereafter in any manner which may be thought fit and the demise hereby made shall not be deemed to include and shall not operate to convey or demise any ways conduits lights liberties privileges easements rights or advantages whatsoever in through over or upon any land adjoining or near to the Demised Premises except as herein expressly provided

Limitation of Landlord's liability
for provision of Services

(4) Notwithstanding anything in any provision contained in this Lease the Landlord shall not be liable to the Tenant nor shall the Tenant have any claim against the Landlord in respect of any interruption in any of the Services mentioned in the Fifth Schedule hereto which shall from time to time be supplied by reason of any necessary repair or maintenance of any installations or apparatus or damage thereto or destruction thereof by fire water Act of God or by reason of electrical mechanical or other defect or breakdown or frost or other inclement conditions or shortage of fuel materials water or labour or whole or partial failure or stoppage of any mains supply or by reason of other circumstances of whatsoever nature beyond the control of the Landlord

No warranty as to
the Permitted Use

(5) Nothing herein contained or implied nor any statement or representation made by or on behalf of the Landlord shall be taken to be a covenant warranty or representation that the Demised Premises can lawfully be used for the Permitted Use

Limitation on the Landlord's obligation to insure

(6) The Landlord shall be deemed to comply with the Landlord's obligations as to insurance under this Lease notwithstanding that the insurance for the time being maintained by the Landlord is subject to conditions or limitations which the Landlord considers it reasonable to accept and without prejudice to the foregoing nothing in this Lease shall require the Landlord at any time to insure against loss or damage or destruction from any cause for which United Kingdom insurance offices of repute generally are not for the time being prepared to grant insurance

Service of notices

(7) Section 196 of the Law of Property Act 1925 as amended by the Recorded Delivery Service Act 1962 shall apply to all notices demands requests or other communications given or made pursuant to this Lease and in addition any such notice demand request or other communication may be delivered to any party hereunder which is for the time being a company or corporation at its registered office If the Tenant or the Guarantor shall comprise more than one person the service of any such notice demand request or other communication on any one of such persons shall constitute good service on all of them

Party walls

(8) Such of the walls of the Demised Premises as divide the Demised Premises from other premises of the Landlord shall be deemed to be party walls severed medially and shall be included in the Demised Premises as far only as the medial plane thereof

As to arbitration in certain events

(9) Where in this Lease provision is made for the appointment of some person to act as an expert or arbitrator to determine a matter of difference between

the Landlord and the Tenant and such provision proves ineffective to secure such appointment then the difference in question shall if the Landlord so requires be settled by a single arbitrator under the Arbitration Acts 1950 and 1979

Exclusion of compensation

(10) Except where any Act of Parliament prohibits or modifies the right to compensation being excluded or reduced by agreement neither the Tenant nor any sub-lessee (whether immediate or derivative) shall be entitled on quitting the Demised Premises or any part thereof to claim any compensation from the Landlord

Impossibility of performance of certain covenants

(11) Nothing herein shall render the Landlord or the Tenant liable in respect of any of the covenants conditions or provisions hereinbefore contained insofar only as the performance and observance of such covenants conditions or provisions or any one or more of them shall hereafter become impossible or illegal under or by virtue of the provisions of the Town and Country Planning Acts 1971 to 1974 but subject as aforesaid the Term and the Rent and other moneys payable to the Landlord hereunder shall not be determined or cease to be payable by reason only of any change modification or restriction of the use of the Demised Premises or obligations or requirements hereafter to be made or imposed under or by virtue of the said Acts

GUARANTEE

6. WHERE a person is named in the Particulars as the Guarantor in consideration of the Landlord at the request of the Guarantor entering into this Lease the Guarantor covenants with the Landlord in the manner set out in Part 1 of the Sixth Schedule hereto

IN WITNESS whereof the parties hereto have executed this Lease the day and year first before written

THE FIRST SCHEDULE above referred to

Rights granted

1. A right of way (in common with the Landlord and all others authorised by the Landlord from time to time or otherwise having the like right) for the Tenant and all others authorised by the Tenant to pass to and from the Demised Premises with or without vehicles over and along the service road or roads and accessways situate upon the Estate from time to time allocated by the Landlord for use by the Tenant
2. The right (in common as aforesaid) of passage of gas electricity water drainage air smoke or other effluvia from and to the Demised Premises through the Conduits now or hereafter during the Perpetuity Period running through under or over other parts of the Estate and serving the Demised Premises
3. Full and free right and liberty for the Tenant and all others authorised by the Tenant upon reasonable prior written notice to the Landlord and the relevant occupier to enter upon such part of the Estate as may be reasonably necessary for the purpose of repairing or maintaining the Demised Premises the Tenant in the exercise of such right doing as little damage as possible to such part of the Estate and forthwith making good any such damage to the reasonable satisfaction of the Landlord
4. The right to park vehicles of the type specified in the particulars on the Parking Spaces
5. The right of support from any adjacent building on the Estate

THE SECOND SCHEDULE about referred to

Exceptions and Reservation

EXCEPT AND RESERVED unto the Landlord and all other persons at any time authorised by the Landlord or otherwise entitled thereto

1. Full right and liberty at all times without obtaining any consent from or making any compensation to the Tenant to build upon any land now or hereafter during the Perpetuity Period belonging to the Landlord (adjoining or near to the Demised Premises) or otherwise deal with or use such land as the Landlord or such other persons may think fit notwithstanding that the access of light and air to the Demised Premises may be affected

2. Full and free right

(1) of running of water soil gas electricity the flow of air and the passage of smoke or other effluvia from and to any other parts of the Estate and the buildings which now are or may hereafter during the Perpetuity Period be erected thereon through the Conduits which now are or may hereafter at any time during the Perpetuity Period be upon in over or under the Demised Premises

(2) during the Perpetuity Period to build additional or relay any Conduits upon in over through or under the Demised Premises in connection with any adjoining or neighbouring property now or hereafter during the Perpetuity Period belonging to the Landlord and to enter upon the Demised Premises for that purpose subject to making good all damage to the Demised Premises caused thereby

(3) to make connections with any Conduits which now are or may hereafter during the Perpetuity Period be upon in over or under the Demised Premises and to enter upon the Demised Premises for that purpose and subject to making good damage to the Demised Premises as aforesaid

3. Full right and liberty to enter upon the Demised Premises at any time during the Term (but after at least twenty-four hours prior notice to the Tenant except in case of emergency) in order to build on or into any party or boundary wall of the Demised Premises the

persons exercising such rights making good all damage to the Demised Premises caused thereby

4. The right to restrict temporarily the exercise of the rights mentioned in paragraphs 1, 2 and 4 of the First Schedule in connection with the provision or carrying out of any of the matters mentioned in the Fifth Schedule hereto but in such manner as to cause as little disturbance as practicable to the Tenant

5. Rights of support for any adjacent buildings on the Estate from the Demised Premises

THE THIRD SCHEDULE above referred to

Rent Review Provisions

1. In this Schedule the following expressions shall have the meanings hereinafter respectively assigned to them that is to say:

(1) "Relevant Review Date" means that one of the Review Dates specified in -----

the Particulars in respect of which Rental Value (as hereinafter defined) falls to be agreed to determined hereunder

(2) "Rent Period" means the period from and including the commencement -----

date of the Term or a Review Date (as the case may be) until the expiration of the day before the first Review Date thereafter or until the end of the Term (as the case may be)

(3) "Rental Value" means the best yearly rent at which the Demised -----

Premises together with the rights granted by this Lease could reasonably be let in the open market at a Relevant Review Date by a willing landlord to a willing tenant and disregarding and making no allowance for the value of any rent free period or the amount of any reverse premium or concession or discount as to rent which such landlord and tenant might reasonably agree as a term of the grant and acceptance of a tenancy

(a) UPON the following assumptions at that date:

(i) that the Demised Premises are fit for immediate occupation and use and that no work has been carried out thereon by the Tenant or the Tenant's predecessors in title during or prior to the Term which has diminished the Rental Value of the Demised Premises and that in case the Demised Premises have been destroyed or damaged they have been fully restored

(ii) that the Demised Premises are available to let as a whole without a premium but with vacant possession and subject to the provisions of this Lease (other than the amount of the Rent but including the provisions for rent review herein contained) for a term equal to the length of the Term

(iii) that the covenants herein contained have been fully performed and observed

(iv) that all necessary permissions approvals licences and consents for the Permitted Use have been obtained and that any condition or provision contained in any planning permission (now or hereafter granted) restricting at any time the occupation of the Demised Premises to any person or class or type of person or precluding occupation by any person or class or type of persons did not exist

(b) BUT disregarding:

(i) any effect on Rental Value of the fact that the Tenant or the Tenant's predecessors in title have been in occupation of the Demised Premises

(ii) any effect on Rental Value of any goodwill attached to the Demised Premises by reason of the carrying on thereat of the business of the Tenant or the Tenant's predecessors in title in their respective business

(iii) any increase in Rental Value of the Demised Premises attributable to any tenant's fixtures or fittings installed in the Demised Premises by the Tenant or the Tenant's predecessors in title or to the existence at a Relevant Review Date of any improvement or alteration to the Demised Premises carried out with the Landlord's consent otherwise than in pursuance of an obligation to the Landlord or the Landlord's predecessors in title by the Tenant or the Tenant's predecessors in title during the Term or during any period of occupation prior thereto arising out of any agreement to grant the Term AND the improvement or alteration was completed not more than twenty-one years before the Relevant Review Date

(iv) any effect on rent of any obligation to reinstate the Demised Premises to its condition prior to the execution of alterations or improvements whether under this Lease or any document supplemental thereto hereinafter entered into

2. Within three months before or as soon as may be after each Review Date the Rental Value at such date shall be agreed between the Landlord and the Tenant or (failing such agreement) determined as hereinafter provided and the yearly rent first reserved and payable commencing on such Review Date or the yearly rent (first reserved) last payable during the immediately preceding Rent Period whichever shall be the greater

3. For the purpose of calculating the amount of rent provided for under this Schedule Rental Value at a Relevant Review Date shall be the amount agreed between

the Landlord and the Tenant and in case no such agreement shall be made by the Relevant Review Date (for any reason whatever and whether or not any steps shall have been taken to reach agreement) either the Landlord or the Tenant may at any time thereafter by written notice to the other require that the matter be referred to the determination of an independent surveyor such surveyor to be agreed upon between the Landlord and the Tenant or failing agreement to be chosen at the request of either the Landlord or the Tenant by the President or a Vice-President for the time being of the Royal Institution of Chartered Surveyors and the reference to the said surveyor shall subject as hereinafter provided be deemed to be a submission to arbitration and so subject to the provisions of the Arbitration Acts 1950 and 1979

PROVIDED that

(1) Within fourteen days of either the Landlord or the Tenant requiring such reference by service of notice as aforesaid the Landlord may require that the said surveyor shall act in the reference as an expert and not as an arbitrator and in such case the said surveyor shall consider any representations submitted to him but shall not thereby be precluded from determining the reference in accordance with his own judgment and

(2) if for any reason the said surveyor (acting as an expert) shall not have determined the Rental Value within three months next following his appointment then either the Landlord or the Tenant may apply to the said President or Vice-President for the appointment of a substitute expert and such procedure to secure the reference of the matter to an expert shall be repeated as many times as may be necessary to secure the determination of Rental Value hereunder and

(3) the fees of the said surveyor acting as an expert and the costs of his appointment shall be shared

between the Landlord and the Tenant in such proportions as the said surveyor shall determine

4. As soon as the amount of rent payable from a Relevant Review Date has been agreed or determined a Memorandum in duplicate specifying the particulars of such agreement or determination shall be signed by or on behalf of the Landlord and the Tenant and one part shall be attached to this Lease and the other to the counterpart thereof

5. Pending the said agreement or determination of rent payable from a Relevant Review Date the Tenant shall pay rent at the yearly rate last payable immediately before the Relevant Review Date on every due date for payment until the amount of the said rent for the relevant Rent Period (hereinafter called "rent at the revised rate") shall have been so agreed or determined and within seven days after such agreement or determination the Tenant shall pay to the Landlord by way of rent such a sum as (with the rent already paid in respect of the period to which such agreement or determination relates down to the Quarter Day immediately following such agreement or determination) shall be equal to rent at the revised rate for such period down to such Quarter Day and in addition the Tenant shall pay to the Landlord interest on such sum at the rate of Two pounds per centum (pounds 2%) per annum below the Stipulated Rate calculated on a daily basis from the Relevant Review Date (but in relation to any part of such sum (relating to any period after the Quarter Day immediately following the Relevant Review Date) which had the rent at the revised rate been ascertained on the Relevant Review Date would have become payable to the Landlord on a Quarter Day subsequent to the Relevant Review Date then such interest shall be calculated only from such Quarter Day) down to the date of payment (as well after as before judgment)

6. If at a Relevant Review Date the Landlord shall be restricted or prevented by any legislation relative to the control of rents from obtaining the full amount of the rent which would otherwise be payable hereunder or from obtaining any increase in the rent hereunder or by reason of such legislation the provisions hereinbefore contained shall not operate than the foregoing provisions of this Schedule shall have effect so far as permitted by law but in addition the Landlord shall be entitled on giving to the Tenant not less than three months notice in writing at any time after the Relevant Review Date to introduce an intermediate review date (hereinafter called "the Intermediate Review Date") which shall be the date of the expiration of such notice and the rent payable hereunder from an Intermediate Review Date until the expiration of the then current Rent Period (or such later date as the rent should be reviewed hereunder as the case may be) shall be determined and the provisions of this Schedule shall apply (mutatis mutandis) as though the Intermediate Review Date was the date of commencement of a Rent Period and shall constitute a Relevant Review Date for the purposes of this Schedule

7. Time shall not be of the essence in the operation of this Schedule

THE FOURTH SCHEDULE above referred to

Stipulations and Restrictions

1. Not to obstruct the service roads and accessways situate upon the Estate or park any vehicles thereon

2. Not to permit any vehicle to remain for an unreasonable time nor any goods materials or other things to be loaded unloaded or deposited outside the Demised Premises in such manner as to cause obstruction or annoyance to the Landlord or to the tenants or occupiers of any other premises on the Estate

3. Not to install any heating apparatus of any description in the Demised Premises unless the same shall first be approved by the Landlord
4. Not to do anything which may put any weight or impose strain on the Demised Premises in excess of that which the same are calculated to bear with due margin for safety
5. Not to allow to pass into the Conduits serving the Demised Premises any noxious or deleterious effluent or other substance which may cause an obstruction in or injure the same and in the event of any such obstruction or injury if required by the Landlord at the Tenant's cost forthwith to remove such obstruction and to make good all damage to the satisfaction of the Landlord and not to discharge any trade waste into the Conduits nor discharge anything but storm water and surface water into the surface water drains of the Demised Premises
6. Not to obstruct any of the windows lights or ventilators belonging to the Demised Premises nor to give to any third party any acknowledgement that the Tenant enjoys the access of light to any of the windows or openings in the Demised Premises by the consent of such third party nor to permit any new window light ventilator passage drainage or other encroachment or easement to be made in to or acquired against or over the Demised Premises or any part thereof and in case any encroachment or easement whatsoever shall be alleged or attempted to be made or acquired by any person or persons whomsoever to give notice thereof in writing to the Landlord immediately the same shall come to the notice of the Tenant and at the cost of the Tenant to do all such things as may be proper for preventing any encroachment or easement being made or acquired
7. To provide and to maintain or cause to be provided and maintained in good working order adequate fire fighting and prevention equipment within the Demised

Premises

8. Not to use the Demised Premises for the storage deposit or display of goods materials or things of a dangerous inflammable or explosive nature or liable to spontaneous combustion or the keeping storage or possession of which may contravene any legislation or any requirement of the Landlord's insurers
9. Not to store any materials or goods outside the building or buildings comprised in the Demised Premises
10. Not to burn rubbish or waste materials paper wood and other combustible matter on the Demised Premises except within boilers or incinerators provided for the purpose and approved by the Landlord or the Landlord's managing agents
11. Not to emit any smoke fumes or smells from the Demised Premises so as to cause in the opinion of the Landlord or the Landlord's managing agents annoyance or interference with the proper enjoyment of other tenants of the Estate or premises adjoining or near thereto
12. To secure all buildings comprised in the Demised Premises by locking all windows and doors therein outside working hours
13. To provide facilities within the curtilage of the Demised Premises for the keeping of refuse in proper receptacles readily accessible for collection
14. To keep the interior and exterior of the windows of the Demised Premises clean and to effect such cleaning as often as shall be necessary

THE FIFTH SCHEDULE above referred to

Service Charge

Definitions

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1. In this Schedule the following expressions shall have the meanings hereinafter respectively assigned thereto that is to say:

(1) "Accounting Period" means a period of twelve months ending on the Service

Charge Accounting Day specified in the Particulars (whether or not including a period falling before the commencement of the Term or subsequent to the termination of the Term) Provided that if there shall be an Estate Opening Date specified in the Particulars the period from that date until the Service Charge Accounting Day immediately following the Estate Opening Date shall be an Accounting Period hereunder

(2) "Initial Period" means the period from the Service Charge Commencement Date

specified in the Particulars until the Service Charge Accounting Day immediately following the same

(3) "Final Period" means the period from the Service Charge Accounting Day

immediately preceding the termination of the Term until the termination of the Term

(4) "Relevant Proportion" means in relation to the Initial Period or the Final

Period the proportion which the number of days comprised in such period bears to the number of days comprised in the Accounting Period in which the Initial Period or the Final Period as the case may be falls

(5) "Services" means the following services matters or things:

(a) the amount (if any) from time to time assessed by the Landlord's insurers by way of premium as being payable by the Landlord for keeping the roads and accessways within the Estate and other areas or other parts of the Estate intended to be used in common and any building or structure occupied by the Landlord in connection with any of the services matters or things mentioned herein insured for an amount (estimated from time to time by the Landlord or the Landlord's managing agents) necessary to cover the full costs of rebuilding or reinstating the same against damage by the Insured

Risks together with architects' surveyors' engineers' and other professional fees

(b) the amounts from time to time assessed by the Landlord's insurers by way of premium as being payable by the Landlord for providing insurance cover which may from time to time be effected by the Landlord in respect of the following matters or any of them:

(i) any liability to the public or third parties by virtue of the Landlord's ownership or occupation of the Estate or any part thereof

(ii) the loss or damage of or to any fixtures fittings plant equipment machinery chattel or any other things in use from time to time in connection with the provision or supply of services matters or things herein mentioned

(iii) such other damage loss liability or claim which may arise in relation to any of the services matters or things herein mentioned and the employment of staff in connection therewith

(c) the scavenging lighting cleansing repair renewal maintenance rebuilding replacement redecoration or repainting (as often as occasion shall require) of the service roads areas ramps accessways pedestrian ways passageways staircases embankments transformer chambers gatehouse management office parking areas car parks open spaces gardens (including suitable planting or replanting of such open spaces and gardens) Conduits boundary walls and gateways fences or other structures and all other conveniences works services and facilities of whatsoever nature now or at any time hereafter forming part of or serving the Estate and intended for common or public use or for the benefit of the tenants of the Estate (whether or not also serving other premises near to or adjoining the Estate) and not being the responsibility of the Tenant or any other tenant on the Estate

(d) the collection compaction and disposal of refuse from the Estate (if the same shall be arranged by the Landlord)

(e) the maintaining of any security for the Estate (if the Landlord shall so require)

(f) the provision of signboards for general use on the Estate

(g) the employment or engagement and remuneration of staff servants contractors agents professional advisers and any other persons in connection with the provision of the services things or matters herein mentioned the general supervision management and administration of the Estate and the ascertainment and collection of the Service Charge (as hereinafter defined) and all incidental expenditure in relation to the employment of staff and others including the provision of clothing uniforms the payment of the statutory and such other insurance health pension welfare travelling expenses and allowances clothing allowances and other payments contributions and premiums as the Landlord may deem desirable or necessary

(h) the taking of any steps thought desirable or expedient by the Landlord for complying with making representations against or otherwise contesting the incidence of the provisions of any legislation concerning town planning public health highways streets drainage or other matters relating or alleged to relate to the Estate for which tenants of the Estate are not directly liable

(i) the provision maintenance and replacement of any plant equipment machinery tool chattel or thing used by the Landlord or others for any of the services matters or things herein mentioned

(j) all outgoings in connection with any accommodation building or area occupied by the Landlord in connection with the supply and provision of any of

the services matters or things herein mentioned and in connection with all common parts of the Estate

(k) the supply or provision and maintenance of any other services or matters which the Landlord shall reasonably consider to be conducive to the proper and efficient management of the Estate

(l) the amount of any value added tax or any other similar tax or taxes payable in respect of any of the above matters

(6) "Service Charge" in relation to any Accounting Period means all costs

expenses and outgoings expended or incurred or which may become payable or which are provided for by the Landlord in the provision or supply of the Services in respect of the relevant Accounting Period (including (a) such provision for anticipated future expenditure (if any) or notional sums (if any) comprised within the Services and reasonably allocated by the Landlord to the relevant Accounting Period) and (b) if the Landlord shall itself undertake the general supervision and management of the Estate the Landlord may if it so desires include in the Service Charge for any relevant Accounting Period a sum equivalent to the amount which a firm of Chartered Surveyors would reasonably have charged for the time being in the open market for undertaking such a general supervision and management and such sum shall be deemed to be expenditure incurred by the Landlord for the relevant Accounting Period

(7) "Tenant's Proportion" means the Service Charge Proportion specified in the

Particulars or if the Landlord shall hereafter so determine such other proportion as to the Landlord shall seem fair and equitable

Tenant's share of Service Charge

2. The share of the Service Charge for an Accounting Period payable by the Tenant shall be an amount equal to

the Tenant's Proportion of the Service Charge for that Accounting Period
Provided that in relation to the Initial Period or the Final Period the share of
the Service Charge for the Accounting Period in which the same Falls shall be
the Tenant's Proportion multiplied by the Relevance Proportion of the Service
Charge for that Accounting Period

The keeping of accounts

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3. The Landlord or the Landlords managing agents shall at all times keep an
account of the Service Charge for each Accounting Period and such account shall
be open to inspection by the Tenant at all reasonable times and every entry in
such account shall be sufficient evidence of the expenditure or provision
recorded therein

Provision of estimates

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4. As soon as may be before or after the beginning of every Accounting Period
the Landlord or the Landlord's managing agents shall make an estimate of the
anticipated amount of the Service Charge for such Accounting Period and shall
notify the Tenant of such estimate

Payments on account

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5. (1) For each Accounting Period during the Term in respect of which an
estimate shall have been made the Tenant shall pay to the Landlord on account of
the Tenant's liability hereunder an amount equal to the Tenant's Proportion of
such estimate and one quarter thereof shall be paid in advance in respect of
every Quarter of such Accounting Period comprised in the Term on the Quarter Day
at the beginning of such Quarter Provided Always that pending the notification
of any such estimate as aforesaid the Tenant shall pay to the Landlord in
advance on each Quarter Day an amount equal to one quarter of the Tenant's
Proportion of the estimate of the Service Charge for the preceding Accounting
Period and within seven days of such

notification the Tenant shall make such payment to the Landlord or the Landlord shall make to the Tenant such allowance against the future liability of the Tenant hereunder as shall ensure that the Tenant has paid the amount which would otherwise have become payable by the Tenant in respect of the period from the commencement of the relevant Accounting Period to the date of such notification had the Tenant been notified of such estimate prior to the commencement of the relevant Accounting Period

(2) During the Initial Period in respect of which an estimate shall have been made the Tenant shall pay to the Landlord in advance on account of the Tenant's liability hereunder on the Service Charge Commencement Date (in respect of the period therefrom until the next following Quarter Day) and on each of the Quarter Days thereafter (in respect of the period therefrom until the next following Quarter Day) a proportionate part (calculated on a daily basis) of an amount equal to the Tenant's Proportion of such estimate Provided Always that if the Tenant shall not be notified of such estimate as aforesaid until after the commencement of the Initial Period the Tenant shall within seven days of such notification pay to the Landlord such payments which would otherwise have become payable by the Tenant in respect of the period from the Service Charge Commencement Date to the date of such notification had the Tenant been notified of such estimate prior to the Service Charge Commencement Date

Issue of certificates
for Accounting Periods
- - - - -

6. As soon as possible after the end of every Accounting Period the Landlord or the Landlord's managing agents shall issue to the Tenant a certificate certifying the total amount of the Service Charge for

the preceding Accounting Period and such certificate shall save in the case of manifest error be conclusive and binding upon the Tenant and upon request by the Tenant the Tenant shall be entitled to receive a summary of the Service Charge for the relevant Accounting Period Adjustment at the end of each Accounting Period.

Payment following issue of certificate

7. Within fourteen days after the issue of the certificate as aforesaid such allowance or (in respect of the Final Period) payment shall be made to the Tenant or the Tenant shall make such payment to the Landlord on demand as shall be requisite for ensuring that the Tenant has paid the Tenant's Proportion of the Service Charge (or in respect of the Initial Period or the Final Period the Relevant Proportion thereof) in respect of the preceding Accounting Period Provided Always that the provisions of this paragraph shall continue to apply notwithstanding the termination of the Term but only in respect of any period prior thereto

THE SIXTH SCHEDULE above referred to

Covenants by Guarantor or Guarantors

PART 1

(A) The Tenant will at all times during the Term and any statutory continuation thereof pay the Rent and all other moneys payable hereunder at the respective times and in manner herein appointed for payment thereof and will also duly observe and perform the several covenants and stipulations herein on the part of the Tenant herein contained

(B) The Guarantor (by way of indemnity and not only by way of guarantee) will pay and make good to the Landlord on demand all losses costs and damages and expenses occasioned to the Landlord by reason of any non-payment or breach specified in Paragraph (A) of this part of

this Schedule and (without prejudice to the generality thereof) in the event of any disclaimer by any trustee in bankruptcy or liquidator or after any forfeiture of this Lease the Guarantor will pending any reletting of the Demised Premises pay to the Landlord an amount equal to all Rent and other sums which but for such disclaimer or forfeiture would have been payable by the Tenant under this Lease

(C) If so required in writing by the Landlord within three months after any disclaimer of this Lease by any trustee in bankruptcy or liquidator or after any forfeiture (as the case may be) the Guarantor will accept a new lease of the Demised Premises for a term equal to the residue of the Term unexpired at the date of such disclaimer or forfeiture as the case may be and commencing on that date at a rent or rents equal to that or those payable at the date of the disclaimer or forfeiture as the case may be and containing the like covenants conditions and provisions as are reserved by and contained in this Lease (such new lease and the rights and liabilities thereunder to take effect from the date of such disclaimer or forfeiture The costs of the Landlord in the preparation and completion of such new lease to be paid by the Guarantor to the Landlord on demand

(D) Any neglect or forbearance of the Landlord in endeavouring to obtain payment of the Rent or other moneys payable under this Lease or any delay in taking any steps to enforce performance of the covenants contained in this Lease and any time which may be given by the Landlord to the Tenant or any variation of the terms of this Lease agreed between the Landlord and the Tenant or any other act omission matter or thing whatsoever whereby (but for this provision) the Guarantor would be exonerated either in whole or in part from the aforesaid covenants shall not release or in any

way lessen or affect the liability of the Guarantor

(E) For the avoidance of doubt and notwithstanding the definition of "Landlord" hereinbefore contained the covenants on the part of the Guarantor hereinbefore contained shall enure for the benefit of the person for the time being entitled to the reversion immediately expectant upon the determination of this Lease and without the need for any express assignment

PART 2

(i) In relation to a Guarantor (other than any Guarantor specified in the Particulars) the words "this Lease" shall be deemed to read "the Lease", and

(ii) In relation to a Guarantor for a successor in title to the Tenant specified in the Particulars the expression "Tenant" mentioned in Part 1 of this Schedule shall mean the person to whom an assignment of the Term is to be made and its successor in title, and

(iii) In relation to a new Guarantor required by the Landlord pursuant to this Lease (other than as mentioned in (ii) above) the expression "Tenant" mentioned in Part 1 of this Schedule shall mean the person who was the Tenant immediately before the event occurred which occasioned the Landlord's requirement for a new guarantor and the successors in title of such person

THE COMMON SEAL of ELECTRICITY)
SUPPLY NOMINEES LIMITED was)
hereunto affixed in the)
presence of :-)

Director

Secretary

THE COMMON SEAL of JOHN ADAMS)
ELECTRONICS LIMITED was)
hereunto affixed in the)
presence of :-)

[SEAL APPEARS HERE]

[SIGNATURE ILLEGIBLE] Director

[SIGNATURE ILLEGIBLE] Secretary

DATED 22nd December 1989

ELECTRICITY SUPPLY NOMINEES LIMITED (1)

JOHN ADAMS ELECTRONICS LIMITED (2)

INTERNATIONAL AERADIO PLC (3)

LICENCE TO ASSIGN

Lease of

Unit No. 1 Block B The Fleming
Centre Fleming Way Crawley West Sussex

Jaques & Lewis,
2 South Square,
Gray's Inn,
London, WC1R 5HR.

(2494J)

THIS LICENCE TO ASSIGN is made the Twenty-second day of December One thousand nine hundred and eighty-nine BETWEEN the PERSON whose name and address is set out in Part I of the First Schedule hereto (hereinafter called "the Landlord") of the first part the PERSON whose name and address is set out in Part II of the First Schedule hereto (hereinafter called "the Tenant") of the second part and the PERSON whose name and address is set out in Part III of the First Schedule hereto (hereinafter called "the Assignee") of the third part

WHEREAS:

(1) In these presents unless there be something in the subject or context inconsistent therewith:

(a) (i) where there are two or more persons included in any party hereto covenants contained in this Deed which are expressed to be made by such party shall be deemed to be made by such persons jointly and severally

(ii) words importing the singular number only shall include the plural number and vice versa and words importing any particular gender shall include masculine feminine and neuter genders

(b) the expressions "the Landlord" "the Tenant" and "the Assignee" shall include those deriving title under them respectively (including without prejudice to the generality of the foregoing their personal representatives assigns and successors in title and in the case of the Landlord the person for the time being entitle to the

reversion immediately expectant on the determination of the term created by the Lease as hereinafter defined)

(c) the expressions following shall have the meanings hereinafter mentioned (that is to say)

(i) "the Lease" means the lease or underlease short particulars of which are set out in Part I of the Second Schedule hereto and the Supplemental Deeds (as hereinafter defined)

(ii) "the Premises" means the premises demised by the Lease short particulars of which are set out in Part II of the Second Schedule hereto

(iii) "the Supplemental Deeds" means the deeds or documents particulars of which are set out in the Third Schedule hereto

(2) This Deed is supplemental to the Lease

(3) The reversion immediately expectant upon the determination of the term created by the Lease is vested in the Landlord and the term of years thereby created is vested in the Tenant

NOW THIS DEED WITNESSETH as follows:

1. IN consideration of the covenants by the Assignee hereinafter contained the Landlord hereby grants unto the Tenant licence to assign all the estate and interest of the Tenant in the Premises to the Assignee

2. THE Assignee hereby covenants with the Landlord that as from the date when the estate and interest of the Tenant in the Premises shall be assigned to the Assignee pursuant to

(2494J)

this Licence and thenceforth during the residue of the term created by the Lease and any statutory extension or renewal thereof the Assignee will pay the rent and other payments thereby reserved and observe and perform the covenants conditions and agreements on the part of the lessee contained therein

3. THE Tenant shall forthwith upon demand by the Landlord pay to the Landlord all legal costs and surveyors' and management fees (including Value Added Tax) and disbursements incurred by the Landlord in connection with this Licence

4. THE assignment in its final form shall be produced to the Landlord for its approval and the Tenant HEREBY COVENANTS that completion of the assignment will not take place until such approval has been given

5. NOTHING herein contained shall authorise any further or other dealing with or assignment demise or underlease of the Premises except such as is hereby expressly authorised

6. THE condition for re-entry contained in the Lease shall be exercisable as well on breach of the covenants on the part of the Assignee hereinbefore contained as on the happening of any of the events mentioned in the said condition

7. THE assignment shall be produced to the solicitors for the Landlord for registration within two months of the date hereof (or such shorter period as may be specified in the Lease) and such registration fee as is specified in the Lease (or if none is specified such registration fee as may

(2494J)

be required by the Landlord's solicitors) shall be paid

In Witness whereof the parties hereto have executed this Deed the day and year first before written

THE FIRST SCHEDULE before referred to

Part I

Particulars of the Landlord

ELECTRICITY SUPPLY NOMINEES LIMITED whose registered office is at 30 Millbank
London SW1

Part II

Particulars of the Tenant

JOHN ADAMS ELECTRONICS LIMITED whose registered office is at Aeradio House Hayes
Road Southall Middlesex UB2 5NJ

Part III

Particulars of the Assignee

INTERNATIONAL AERADIO plc whose registered office is at Aeradio House Hayes Road
Southall Middlesex UB2 5NJ

THE SECOND SCHEDULE before referred to

Part I

Particulars of the Lease

(2494J)

Date	Document	Parties	Term
4.7.1986	Lease	the Landlord(1) the Tenant (2)	25 years from (and including) 25.3.1986

Part II

Particulars of the Premises

ALL THAT piece or parcel of land together with the building erected thereon or on some part thereof known as Unit Number B1 The Fleming Centre Fleming Way Crawley as the same is described in and demised by the Lease

THE THIRD SCHEDULE before referred to

Particulars of Supplemental Deeds

Date	Document	Parties
22.4.1987	Licence for Alterations	the Landlord (1) the Tenant (2)

The COMMON SEAL of ELECTRICITY)
 SUPPLY NOMINEES LIMITED was) [SEAL APPEARS HERE]
 hereunto affixed in the)
 presence of :-)

/s/ [SIGNATURE ILLEGIBLE]
 Director
 /s/ [SIGNATURE ILLEGIBLE]
 Secretary

(2494J)

[SEAL APPEARS HERE]

(The COMMON SEAL of JOHN ADAMS
(ELECTRONICS LIMITED was
(hereunto affixed in the
(presence of:-

[SIGNATURE ILLEGIBLE] Director

[SIGNATURE ILLEGIBLE] Secretary

[SEAL APPEARS HERE]

(The COMMON SEAL of
(INTERNATIONAL AERADIO PLC was
(hereunto affixed in the
(presence of:-

[SIGNATURE ILLEGIBLE] Director

[SIGNATURE ILLEGIBLE] Secretary

(2494J)

TO

Electricity Supply Nominees Limited and to their Solicitors Messrs Jaques & Lewis of 2 South Square Grays Inn London WC1R 5HR

UNIT B1 FLEMING CENTRE FLEMING WAY GRAWLEY WEST SUSSEX

NOTICE IS HEREBY GIVEN that by a Transfer dated the 24th day of January 1990 made between John Adams Electronics Limited (1) and International Aerado plc (2) the above premises being the premises comprised in a Lease dated the 4th day of July 1986 and made between Electricity Supply Nominees Limited (1) and John Adams Electronics Limited (2) were assigned to International Aerado plc for the residue of the term of 25 years from (and including) the 25th day of March 1986 granted by the said Lease subject nevertheless to the payment of the rents and other payments thereby reserved and to the observance and performance of the covenants agreements stipulations and conditions contained or referred to in the said Lease and on the part of the Tenant to be observed and performed

DATED this 15th day of June 1990

[SIGNATURE ILLEGIBLE]
For the solicitor to
British Telecommunications plc
Property Law Department
10-18 Manor Gardens
London N7 6JR

Received this 19th day of June 1990 a Notice in duplicate of which the above is a copy together with a certified copy of the above Transfer and cheque for (POUNDS) 17.25 in respect of the fee payable for registration pursuant to Clause 3(23) (i) of the said Lease and Clause 7 of the Licence to Assign dated the 22nd day of December 1989

[SIGNATURE ILLEGIBLE]

Solicitors to the said
Electricity Supply Nominees Limited

DATED 24th January 1990

JOHN ADAMS ELECTRONICS LIMITED

- and -

INTERNATIONAL AERADIO plc

TRANSFER

of

Leasehold property known as
Unit No 1 Block B
The Fleming Centre Fleming Way
Crawley West Sussex

(Comprised in a Lease dated 4th July 1986)

H M LAND REGISTRY

LAND REGISTRATION ACTS 1925 TO 1986

TRANSFER OF WHOLE (LEASEHOLD)

COUNTY: WEST SUSSEX CRAWLEY DISTRICT
TITLE NUMBER: WSX105598
PROPERTY: UNIT NO 1 BLOCK B THE FLEMING CENTRE
FLEMING WAY CRAWLEY WEST SUSSEX
DATE: 26TH JANUARY 1990

1. In consideration of ONE POUND ((POUND 1) (the receipt whereof is hereby acknowledged) JOHN ADAMS ELECTRONICS LIMITED whose registered office is at Aeradio House Hayes Road Southall Middlesex UB2 5NJ (Company Registration Number 1538157) ("the Transferor") hereby transfers to INTERNATIONAL AERADIO plc whose registered office is at Aeradio House aforesaid (Company Registration Number 427272) ("the Transferee") the land comprised in the above title for the residue of the term granted by the Registered Lease
2. THE Transferee hereby covenants with the Transferor that it the Transferee and those deriving title under it will at all times after the date hereof and thenceforth during the remainder of the term created by the Registered Lease pay all rents and other payments becoming due under and by virtue of the Registered Lease or any deed or document supplemental thereto and will duly observe and perform all

the covenants agreements restrictions stipulations and conditions contained or referred to therein and on the part of the Tenant to be observed and performed and will keep the Transferor and its effects fully and effectually indemnified against all actions proceedings costs claims demands expenses losses and liabilities whatsoever in respect of or arising on account of any breach or non-observance of any such matters occurring after the date hereof

3. IT is hereby certified that the transaction hereby effected does not form part of a larger transaction or series of transaction in respect of which the amount or value or aggregate of value of the consideration exceeds thirty thousand pounds ((Pounds) 30,000)

THE COMMON SEAL of)
JOHN ADAMS ELECTRONICS LIMITED) [SEAL APPEARS HERE]
was hereunto affixed in the)
presence of:)

/s/ [SIGNATURE ILLEGIBLE] Director

/s/ [SIGNATURE ILLEGIBLE] Secretary

THE COMMON SEAL of)
INTERNATIONAL AERADIO plc) [SEAL APPEARS HERE]
was hereunto affixed in the)
presence of:)

/s/ [SIGNATURE ILLEGIBLE] Director

/s/ [SIGNATURE ILLEGIBLE] Secretary

[LETTERHEAD OF CLIVE LEWIS AND PARTNERS APPEARS HERE]

7th November 1991

Our Ref: LEB/CMT/4666

Your Ref:

R Brackenbury Esq ASVA
Messrs. Debenham Tewson and Chinnocks
75 Davies Street
LONDON W1A 1DZ

C D Fitzgerald Esq FRICS
Messrs. Johns
6 Spencers Road
CRAWLEY
WEST SUSSEX RH11 7DA

Dear Sirs,

UNIT B1 THE FLEMING CENTRE, FLEMING WAY, CRAWLEY, WEST SUSSEX

By an appointment dated 3rd May 1991 I, Leonard Ernest Baker, MA (Cantab) Dip. Est. Man., FRICS, was appointed by the President of the Royal Institution of Chartered Surveyors as the Arbitrator to determine the rent in respect of the above mentioned premises in accordance with the provisions of the Arbitration Acts of 1950 and 1979.

The reference to arbitration arose out of the terms of a lease dated 4th July 1986, between Electricity Supply Nominees Limited (the landlord) and John Adams Electronics Limited, now vested in International Aeradio Plc (the tenant). The lease was granted for a term of 25 years from 25th March 1986, at an initial rent of (Pounds) 65,000 per annum and contained provision for rent review at each fifth anniversary of the term.

The matter in dispute between the parties is the assessment of the rental value of the demised premises, in accordance with the provisions of the Third Schedule to the lease of 4th July 1986, as at 25th March 1991.

It was agreed that the matter should proceed by written submissions and these were duly received from Mr. R Brackenbury ASVA of Messrs. Debenham Tewson and Chinnocks of 75 Davies Street, London W1, on behalf of the landlords, and from Mr. C D Fitzgerald FRICS of Messrs. Johns of 6 Spencers Road, Crawley, West initial submissions of the other side.

The parties submitted a Statement of Agreed Facts in which, amongst other things the floor areas were agreed, as also were details of tenant's fixtures and fittings.

Cont /...

[LOGO OF CLIVE LEWIS AND PARTNERS APPEARS HERE]

... /2

R Brackenbury Esq ASVA and C D Fitzgerald Esq FRICS
7th November 1991

Mr. Brackenbury contended for a rent of (Pounds) 121,900 per annum, based upon a rental value of (Pounds) 10.25 per sq ft with 50% of this rate being applied to the area of the covered loading bay. Mr. Fitzgerald argued in support of a rent of (Pounds) 79,400 per annum by adopting a basic rate of (Pounds) 6.75 per sq ft and with one third, i.e. (Pounds) 2.25 per sq ft, applied to the area of the covered loading bay.

It was requested by each party that I should make an Interim Award, final save only as to the question of costs, on which the parties would have the opportunity of addressing me prior to making my final Award.

I have inspected the subject premises and either inspected or viewed externally the properties cited as comparables and have carefully considered the submissions and counter submissions which have been made.

In accordance with the foregoing, I find that the rental value, in accordance with the provisions of the Third Schedule of the lease dated 4th July 1986, as at 25th March 1991, is (Pounds) 94,000 (Ninety Four Thousand Pounds) per annum exclusive and I so Award.

This is my Interim Award, final save only as to the question of costs upon which submissions are to be made by a date to be agreed.

Yours truly,

/s/ L. E. Baker

L. E. BAKER
- - - - -

Dated: 7th November 1991

[LOGO]

CERTIFICATE OF INCORPORATION
ON RE-REGISTRATION OF A PUBLIC COMPANY
AS A PRIVATE COMPANY

No 427272

I hereby certify that

INTERNATIONAL AERADIO LIMITED

formerly registered as a public company has this day been re-registered under the Companies Act 1985 as a private company, and that the Company is limited.

Given under my hand at Cardiff the 14TH FEBRUARY 1992

/s/ M. B. May

M. B. MAY (MRS.)

An Authorised Officer

LICENCE TO ASSIGN

DATED 29th January 1993

The Landlord: ELECTRICITY SUPPLY NOMINEES LIMITED
The Tenant: INTERNATIONAL AERADIO LIMITED
The Assignee: RAPISCAN SECURITY PRODUCTS LIMITED
The Guarantor: INTERNATIONAL AERADIO LIMITED
The Property: Unit 1, Block B, The Fleming
Centre, Fleming Way, Crawley, West
Sussex

Jaques & Lewis
2 South Square
Gray's Inn
London WC1R 5HR
Tel: 071 242 9755
Ref: MD/jb/10/8653

(8740I)

LICENCE TO ASSIGN

PARTICULARS

Date :29th January 1993

 the Landlord :ELECTRICITY SUPPLY NOMINEES

 LIMITED whose registered office is
 at 110 Buckingham Palace Road
 London SW1W 9SL
 the Tenant :INTERNATIONAL AERADIO LIMITED

 whose registered office is at
 Lincoln Way Sunbury on Thames
 Middlesex TW16 7HW
 the Assignee :RAPISCAN SECURITY PRODUCTS

 LIMITED whose registered office is
 at Unit 1 Block B The Fleming Crawley
 the Guarantor :INTERNATIONAL AERADIO LIMITED

 aforesaid
 the Lease :

Date	Parties	Premises	Term
04.07.1986	The Landlord (1) John Adams Electronics Ltd (2)	Unit No.1, Block B, The Fleming Centre, Fleming Way, Crawley, West Sussex	25 years from 25.03.1986

and includes the following deeds and documents:-

Date	Documents	Parties
24.04.1987	Licence for Alterations	The Landlord (1) John Adams Electronics Ltd (2)
22.12.1989	Licence to Assign	The Landlord (1) John Adams Electronics Ltd (2) The Tenant (3)
29.01.1990	Licence for Alterations	The Landlord (1) The Tenant (2)
1.12.1992	Licence for Alterations	The Landlord (1) The Tenant (2)

(8740I)

INTERPRETATION

1.1 In this Deed unless the context otherwise requires:-

1.1.1 where more than one person is included in any of the expressions "the Tenant" "the Assignee" or "the Guarantor" covenants by such persons are -----
joint and several

1.1.2 the expressions "the Landlord" "the Tenant" and "the Assignee" -----
include those deriving title through or under them respectively and in the case of the Landlord include the person for the time being entitled to the reversion immediately expectant upon the Term

1.1.3 "the Lease" means the documents shortly so described in the -----
Particulars and includes all documents supplemental thereto

1.1.4 "the Premises" means the premises demised by the Lease -----

1.1.5 "the Term" means the terms of years granted by the Lease and -----
includes any statutory extension or continuation thereof

1.1.6 otherwise expressions have the meanings given to them in the Particulars

1.2 This Deed is made supplemental to the Lease.

TITLE

2. The Landlord is entitled to the Premises in reversion immediately expectant upon the determination of the Term and the Term is vested in the Tenant

LICENCE

3. The Landlord HEREBY GRANTS unto the Tenant licence to assign the Tenant's interest in the Premises to the Assignee

ASSIGNEE'S COVENANTS

4. THE Assignee HEREBY COVENANTS with the Landlord:-

4.1 as from the date when the Premises are assigned to the Assignee and thenceforth during the residue of the Term to pay the rents reserved by and observe and perform the covenants conditions and agreements on the part of the lessee contained in the Lease

4.2 not to enter into occupation or possession of the whole or any part of the Premises until completion of the assignment to the Assignee

GUARANTOR'S COVENANTS

5. In consideration of the Landlord granting this Licence at the request of the Guarantor the Guarantor covenants with the Landlord:-

5.1 that the Assignee will at all times during the Term pay the rent reserved by the Lease and all other moneys payable thereunder at the respective times and in manner therein appointed for payment thereof and will also duly observe and perform the several covenants and stipulations on the part of the lessee therein contained

(8740I)

5.2 the Guarantor (by way of indemnity and not only by way of guarantee) will pay and make good to the Landlord on demand all losses costs damages and expenses occasioned to the Landlord by reason of any non-payment or breach specified in sun-clause 5.1 hereof and (without prejudice to the generality thereof) in the event of any disclaimer by any trustee in bankruptcy or liquidator or after any forfeiture of the Lease the Guarantor will pending any reletting of the Premises pay to the Landlord an amount equal to all rent reserved by the Lease and other sums which but disclaimer or forfeiture would have been payable by the Tenant under the Lease

5.3 if so required in writing by the Landlord within three months after any disclaimer of the Lease by any trustee in bankruptcy or liquidator or after any forfeiture or after the Assignee (being a company) ceases to exist (as the case may be) the Guarantor will accept a new lease of the Premises for a term equal to the residue of the Term unexpired at the date of such disclaimer or forfeiture or other event as the case may be and commencing on that date at a rent or rents equal to that or those payable at the date of the disclaimer or forfeiture or other event as the case may be and containing the like covenants conditions and provisions as are contained in the Lease (such new lease and the rights and liabilities thereunder to take effect from the date of such disclaimer of forfeiture or other event but any rent

(8740I)

review or other dates referred to in the new lease which are computed by reference to a period or periods of time shall fall upon the same dates as would have applied had the Lease still subsisted) and the cost of the Landlord in the preparation and completion of such new lease shall be paid by the Guarantor to the Landlord on demand

5.4 any neglect or forbearance of the Landlord in endeavoring to obtain payment of the rent reserved by the Lease or other moneys payable thereunder or any delay in taking any steps to enforce performance to the covenants contained in the Lease and any time which may be given by the Landlord to the Assignee or any other act omission matter or thing whatsoever whereby (but for this provision) the Guarantor would be exonerated either in whole or in part from the aforesaid covenants shall not release or in any way lessen or affect the liability of the Guarantor

5.5 this guarantee shall enure to the benefit of all persons from time to time constituting the Landlord without any express assignment of this guarantee being required

5.6 where more than one person is named as the Guarantor no invalidity of this guarantee in respect of any of them shall affect the liability of the others

6. In the event that (i) the Tenant (in this Clause 5 meaning International Aeradio Limited only) is called

(8740I)

upon by the Landlord (giving not less than fourteen days notice in writing) to perform obligations or pay rent or other sums due under the lease as covenantor pursuant to a Licence to Assign dated 22 December 1989 between the Landlord (1) John Adams Electronics Limited (2) and the Tenant (3) or as Guarantor pursuant to Clause 5 of this Licence and (ii) the Tenant has paid to the Landlord pursuant to such notice all arrears then due under the Lease (being not less than one quarter's rent plus any VAT thereon) then the Landlord will grant to the Tenant (if so requested) within 14 days of the Landlord first calling upon the Tenant to perform any such obligations or pay rent or other sums as aforesaid an overriding lease with a reversion of 3 days in the same terms as the Lease for the term then unexpired and also (if so requested) will assign to the Tenant all rights of action accrued against the defaulting party or parties and the reasonable and proper costs of the Landlord in granting such overriding lease and assigning such rights of action (together with any proper disbursements) and any VAT thereon shall be paid by the Tenant to the Landlord prior to the grant of the said overriding lease and assignment respectively

DECLARATION

7. It is hereby declared that the condition for re-entry contained in the Lease shall be exercisable as well on breach of the covenants on the part of the

Assignee and the Guarantor herein contained as upon the happening of any of the events specified in the said condition

IN WITNESS whereof the Landlord the Assignee and the Guarantor have executed this Deed as a deed the day and year first above written

THE COMMON SEAL of INTERNATIONAL)
AERADIO LIMITED was hereunto)
affixed in the presence)
of:)

[SEAL APPEARS HERE]

[SEAL APPEARS HERE]

Director [SIGNATURE ILLEGIBLE]

Secretary/Director [SIGNATURE ILLEGIBLE]

THE COMMON SEAL of RAPISCAN)
SECURITY PRODUCTS LIMITED was)
hereunto affixed in the presence)
of:)

[SEAL APPEARS HERE]

[SEAL APPEARS HERE]

Director [SIGNATURE ILLEGIBLE]

Secretary [SIGNATURE ILLEGIBLE]

TRANSFER OF WHOLE

H M Land Registry

Land Registration Acts of 1925 to 1986

County and district
(or London Borough): West Sussex, Crawley

Title Numbers: WSX105598

Property: Unit 1, Block B, The Fleming Centre, Fleming Way,
Crawley

Date: 1st February 1993

In consideration of the covenants hereinafter contained INTERNATIONAL AERADIO

LIMITED of Aeradio House Hayes Road Southa11 Middlesex UB2 5NJ ("the

Transferor") as beneficial owner transfers to RAPISCAN SECURITY PRODUCTS LIMITED

of Unit B1 Fleming Way The Fleming Centre Crawley West Sussex RH10 2NN ("the
Transferee") Company registration number 2755398 the land comprised in the title
above referred to

1. The parties declare that the covenants for title implied by the Transfer transferring as Beneficial Owner shall not imply that the covenants in a Lease dated 4th July 1986 between Electricity Supply Nominees Limited (1) and John Adams Electronics Limited (2) ("the Lease") relating to the state and condition of the Property have been observed and performed to the date of this Transfer
2. The Transferee will from the date of this Transfer and thenceforth during the residue of the term of the Lease duly pay all rent becoming due under the Lease and will observe and perform and all the covenants agreements and conditions therein contained and thenceforth on the part of the lessee to be observed and performed and will also from such date keep the Transferor indemnified against all proceedings costs claims and

set out in clause 10 of the Deed and when such evidence has been provided to the Transferor the Rent Deposit shall be released to the Transferee absolutely in accordance with clauses 8 and 10 of the Deed such clause 10.1 being read mutatis mutandis as if the words Rapiscan in the third and fifth lines of that clause were replaced by the name of the proposed assignee

The Common Seal of INTERNATIONAL) [SEAL]

AERADIO LIMITED was affixed in the)

presence of:-)

Director [SIGNATURE ILLEGIBLE]

Director/Secretary [SIGNATURE ILLEGIBLE]

The Common Seal of RAPISCAN) [SEAL]

SECURITY PRODUCTS LIMITED was)

affixed in the presence of:-)

Director [SIGNATURE ILLEGIBLE]

Secretary [SIGNATURE ILLEGIBLE]

No. _____

TO JAQUES & LEWIS

2 SOUTH SQUARE, GRAY'S INN,

LONDON WC1R 5HP

and all others whom it may concern.

=====

PURSUANT TO the covenant contained or implied in the Lease or Underlease of which Particulars appear below NOTICE IS HEREBY GIVEN that by a/Transfer/_____ dated 1st February 1993 the property known as Unit 1, Block B, The Fleming Centre, Fleming Way, Crawley, West Sussex

was/transferred _____ by INTERNATIONAL AERADIO LIMITED to RAPISCAN SECURITY PRODUCTS LIMITED

[for the residue of the term] _____

Date of Lease or Underlease	Parties
4 July 1986	1. ELECTRICITY SUPPLY NOMINEES LIMITED
	2. JOHN ADAMS ELECTRONICS LIMITED

The rent reserved by the above Lease or Underlease will [in future] be paid by + Rapiscan Security Products Limited Unit B1, Fleming Way, The Fleming Centre, Crawley, West Sussex RH10 2NN

*In the case of a Mortgage it is requested that notice be given to the mortgagee of any default on the part of the lessee/underlessee in paying the rent or performing the tenant's covenants. +In the case of an Assignment of Sublease please state the occupation or description of the assignee of subtenant.

DATED this 18 day of February 1993

BRECHER & CO. [SIGNATURE ILLEGIBLE] 78 BROOK STREET LONDON W1Y 2AD Solicitors for the said Transferee

P.T.O for Receipt]

[Letter Head of Oyez]

DATED 18 February 1993

Re property known as

Unit 1 Block B
The Fleming Centre
Fleming Way
Crawley
West Sussex

=====

NOTICE
of
/Transfer/

=====

RECEIVED this.....day of.....19.....a Notice, of
which the within-written Notice is a duplicate.

.....

.....

.....

Notice to lessor from Assignee, Chargee or Underlessee
of Leaseholds.

CONVEYANCING 4A

OSI SYSTEMS, INC.
EXHIBIT 11.1
STATEMENT OF COMPUTATION OF EARNINGS PER SHARE

	YEAR ENDED JUNE 30, 1993	YEAR ENDED JUNE 30, 1994	YEAR ENDED JUNE 30, 1995	YEAR ENDED JUNE 30, 1996	YEAR ENDED JUNE 30, 1997
Weighted Average Common Shares Outstanding	1,676,063	1,680,750	1,780,125	1,852,219	1,912,408
Weighted Average Preferred Shares Outstanding	1,738,125	1,738,125	1,778,125	1,938,125	2,098,125
Effect of Subordinated Debt	357,100	488,421	303,139	40,000	
Effect of Preferred Shares Issued within 12 months of initial public offering, treasury stock method	1,793,684	1,793,684	1,793,684	1,793,684	1,793,684
Acquisition of Minority Interests	206,610	206,610	206,610	206,610	206,610
Effect of Stock Options: -----					
Granted within 12 months of initial public offering, treasury stock method	207,460	207,460	207,460	207,460	207,460
Remaining options, treasury stock method	160,387	134,624	103,758	96,571	45,676
Weighted Average Shares	6,139,429 =====	6,249,674 =====	6,172,901 =====	6,134,669 =====	6,263,963 =====
Historic Net Income	\$ 659,000	\$ 787,000	\$1,158,000	\$2,259,000	\$4,177,000
Interest on Subordinated Debt, Net of Income Taxes	161,000	246,000	216,000	166,000	92,000
Minority Interest in Net Loss of Subsidiaries	(6,000)	(38,000)	(17,000)	(117,000)	-
Net Income Available to Common Shareholders	\$ 814,000 =====	\$ 995,000 =====	\$1,357,000 =====	\$2,308,000 =====	\$4,269,000 =====
Net Income Per Share	\$ 0.13 =====	\$ 0.16 =====	\$ 0.22 =====	\$ 0.38 =====	\$ 0.68 =====

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

To the Board of Directors and Shareholders of
OSI Systems, Inc.

We consent to the use in this Amendment No. 2 to Registration Statement No. 333-29179 of OSI Systems, Inc. of our report dated August 15, 1997, appearing in the Prospectus, which is a part of this Registration Statement, and to the references to us under the headings "Selected Consolidated Financial Data" and "Experts" in such Prospectus.

Our audits of financial statements referred to in our aforementioned report also included the financial statement schedule of OSI Systems, Inc., listed in Item 16. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

Deloitte & Touche llp

Los Angeles, California

August 15, 1997

YEAR

	JUN-30-1997	
	JUL-01-1996	
	JUN-30-1997	553
		0
	15,556	
		0
	18,517	
	38,383	5,841
		0
	47,333	
27,583		2,840
		0
		7,367
47,333		9,442
		77,628
	77,628	56,174
		56,174
	14,664	
		0
	1,197	
	5,593	
	1,416	
4,177		
		0
		0
		0
	4,177	
	0.68	
		0