

REGISTRATION NO. 333-29179

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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AMENDMENT NO. 1 TO  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933  
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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.)
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(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,  
INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)  
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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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TROY & GOULD PROFESSIONAL CORPORATION  
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC:  
AS SOON AS PRACTICABLE AFTER THIS REGISTRATION STATEMENT BECOMES EFFECTIVE.  
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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.

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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.

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+ 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 1, 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."

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

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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."

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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.  
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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 the nine-month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$31.7 million, or approximately 56.6%, of the Company's revenues, while revenues from sales of security and inspection products amounted to \$24.3 million, or approximately 43.4%, 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 the nine-month period ended March 31, 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 the nine-month period, 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 March 31, 1997 the Company marketed its products worldwide through approximately 44 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.....	9,458,874 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 May 31, 1997. Excludes: (i) approximately 864,986 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of \$7.32 per share; and (ii) up to 45,486 shares of Common Stock that may be issued after June 30, 1997 as additional consideration for the Company's purchase in November 1996 of certain minority shares of Rapiscan U.S.A. See "Certain Transactions."

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

	YEAR ENDED JUNE 30,					NINE MONTHS ENDED MARCH 31,	
	1992	1993	1994	1995	1996	1996	1997
	-----						
	(unaudited)						
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:							
Revenues.....	\$21,471	\$27,225	\$47,735	\$49,815	\$61,518	\$44,994	\$55,973
Cost of goods sold.....	16,581	20,591	36,037	37,818	45,486	33,638	40,380
	-----						
Gross profit.....	4,890	6,634	11,698	11,997	16,032	11,356	15,593
Operating expenses:							
Selling, general and administrative(1)....	2,914	4,014	7,974	7,601	9,757	6,745	8,183
Research and development.....	847	1,034	1,451	1,591	1,663	1,280	1,737
Stock option compensation(2).....	--	--	--	--	--	--	856
	-----						
Total operating expenses.....	3,761	5,048	9,425	9,192	11,420	8,025	10,776
	-----						
Income from operations.....	1,129	1,586	2,273	2,805	4,612	3,331	4,817
Interest expense.....	650	471	710	1,251	1,359	1,026	900
	-----						
Income before income taxes and minority interest.....	479	1,115	1,563	1,554	3,253	2,305	3,917
Provision for income taxes.....	148	462	814	413	1,111	787	983
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Income before minority interest.....	331	653	749	1,141	2,142	1,518	2,934
Minority interest.....	--	6	38	17	117	28	--
	-----						
Net income.....	\$ 331	\$ 659	\$ 787	\$ 1,158	\$ 2,259	\$ 1,546	\$ 2,934
	=====						
Pro forma net income(3)(4).....					\$ 2,308	\$ 1,643	\$ 3,026
	=====						
Pro forma net income per share(3)(4)(5)....					\$ 0.37	\$ 0.26	\$ 0.48
	=====						
Pro forma weighted average shares outstanding(5).....				6,308,126	6,304,158	6,327,234	

MARCH 31, 1997

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ACTUAL AS ADJUSTED(6)  
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CONSOLIDATED BALANCE SHEET DATA:

Cash.....	\$ 1,612	\$33,027
Working capital.....	9,940	48,915
Total assets.....	44,314	75,729
Total debt.....	11,387	1,594
Total shareholders' equity.....	14,982	56,190

(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 pro forma net income 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 September and November 1996 as if such transactions occurred on July 1, 1995. Pro forma adjustments for the year ended June 30, 1996 and for each of the nine-month periods ended March 31, 1996 and 1997 consist of: (i) the elimination of interest expenses related to converted subordinated debt of \$166,000, \$125,000 and \$92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of \$117,000, \$28,000 and \$0, respectively.

(4) Supplementary pro forma net income for the year ended June 30, 1996 and for each of the nine month periods ended March 31, 1996 and 1997 is \$2,913,000,

\$2,086,000 and \$3,464,000, respectively, reflecting the reduction in interest expense, net of income taxes, from the effect of debt repayments discussed under "Use of Proceeds." Supplementary pro forma net income per share for the corresponding periods is \$0.41, \$0.29 and \$0.49, 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, 1995.
- (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 and 1996 and in the nine-month period ended March 31, 1997, revenues from shipments made outside of the United States accounted for approximately 32.0%, 38.0% and 39.3%, respectively, of the Company's revenues. Of the revenues generated during fiscal 1996 from shipments made outside of the United States, 12.0% 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 control 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. Rapiscan U.S.A. is currently involved in a lawsuit against EG&G Inc. and a subsidiary of EG&G Inc. in a matter not related to the patent license agreement with EG&G Inc. See "Business--Legal Proceedings."

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, 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 nine-month period ended March 31, 1997, sales of security and inspection products that are allegedly infringing upon Lunar and UAB's rights constituted \$8.9 million or approximately 15.9% of the Company's revenues. Through March 31, 1997, the Company has incurred legal fees in the amount of approximately \$148,000 in connection with this lawsuit. The Company intends to vigorously pursue 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 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 18.3% and 16.2%, respectively, of the Company's Common Stock (17.4% and 14.3%, 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 40.9% of the outstanding Common Stock (36.9% 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 9,458,874 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 5,758,874 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 5,731,000 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 5,758,874 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 the Offering to be received by the Company, approximately \$31.4 million or approximately 76.2% 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 \$9.8 million outstanding under various bank facilities as described below.

FACILITY	APPROXIMATE PRINCIPAL AMOUNT AT MARCH 31, 1997	RATE BASIS PER ANNUM(1)	RATE AT MARCH 31, 1997	MATURITY
Revolving Credit	\$4,927,000	Variable rate plus 0.25%	8.75%	November 1998
Term Loan	2,500,000	Variable rate plus 0.50%	9.00%	March 2001
Revolving Credit	1,442,000	Variable rate plus 1.50%	10.00%	On demand
Term Loan	66,000	Variable rate plus 2.25%	10.75%	November 1997
Revolving Credit	354,000	Variable rate	6.65%	Evergreen
Term Loan	504,000	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: (i) the actual short-term debt and capitalization of the Company as of March 31, 1997; (ii) the pro forma short-term debt and capitalization of the Company giving effect to the conversion of the Company's outstanding shares of preferred stock into 3,853,125 additional shares of Common Stock and the filing of the Amended and Restated Articles of Incorporation; and (iii) the pro forma 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.

	MARCH 31, 1997		
	ACTUAL	PRO FORMA AS ADJUSTED	
	(In thousands, except share information)		
Short-term debt.....	\$ 8,324	\$ 8,324	\$ 764
Long-term debt, less current portion.....	3,063	3,063	830
Shareholders' equity:			
Preferred Stock, \$1.00 liquidation value; 3,000,000 shares authorized; 2,568,750 shares issued and outstanding, actual; none issued and outstanding, pro forma and pro forma as adjusted	4,014	--	--
Preferred Stock, no par value; 10,000,000 shares authorized, pro forma and pro forma as adjusted; none issued and outstanding.....	--	--	--
Common Stock, no par value(1); 4,500,000 shares authorized; 40,000,000 shares authorized, pro forma and pro forma as adjusted; 2,207,124 shares issued and outstanding, actual; 6,060,249 issued and outstanding, pro forma; 9,390,249 issued and outstanding, pro forma as adjusted.....	2,913	6,927	48,135
Retained earnings.....	7,928	7,928	7,928
Cumulative foreign currency translation adjustment.....	127	127	127
Total shareholders' equity.....	14,982	14,982	56,190
Total capitalization.....	\$18,045	\$18,045	\$57,020

(1) Excludes 499,125 shares of Common Stock issuable upon exercise of outstanding stock options as of March 31, 1997 and up to 45,486 shares of Common Stock that may be 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 March 31, 1997 (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock), was \$13,230,000 or \$2.18 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 (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock). 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 March 31, 1997 would have been \$54,438,000, or \$5.80 per share. This represents an immediate increase in the net tangible book value of \$3.62 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of \$7.70 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.....	\$2.18
Increase in net tangible book value attributable to this Offering.....	3.62
	-----
Pro forma net tangible book value after Offering.....	5.80
	-----
Dilution to new investors.....	\$ 7.70
	=====

The following table sets forth on a pro forma basis as of March 31, 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 (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock and 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
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
	-----				
Existing shareholders..	6,060,249	64.5%	\$ 6,927,000	13.4%	\$ 1.14
New public investors...	3,330,000	35.5	44,955,000	86.6	\$13.50
	-----				
Total.....	9,390,249	100.0%	\$51,882,000	100.0%	
	=====	=====	=====	=====	=====

The foregoing table does not take into effect the exercise of outstanding options to purchase 68,625 shares of Common Stock for \$66,750 subsequent to March 31, 1997. As of the date of this Prospectus, there are outstanding options to purchase an aggregate of 864,986 of Common Stock at a weighted average exercise price of approximately \$7.32 per share. In addition, the Company may be obligated to issue up to an additional 45,486 shares of Common Stock after June 30, 1997 as additional consideration for the Company's purchase in November 1996 of certain minority shares in Rapiscan U.S.A. 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, 1996 and for the nine months ended March 31, 1997, and the balance sheet data at June 30, 1995 and 1996 and March 31, 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, 1992 and 1993 and the balance sheet data at June 30, 1992, 1993, and 1994 are derived from audited financial statements not otherwise contained herein. The consolidated statement of operations data for the nine months ended March 31, 1996 are derived from unaudited financial statements of the Company included elsewhere herein. The unaudited financial statements have been prepared by the Company on a basis consistent with the Company's audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company's results of operations for the period. The results of operations for the nine months ended March 31, 1997 are not necessarily indicative of future results.

	YEAR ENDED JUNE 30,					NINE MONTHS ENDED MARCH 31,	
	1992	1993	1994	1995	1996	1996	1997
	(In thousands, except share and per share data) (Unaudited)						
<b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA:</b>							
Revenues.....	\$21,471	\$27,225	\$47,735	\$49,815	\$61,518	\$44,994	\$55,973
Cost of goods sold.....	16,581	20,591	36,037	37,818	45,486	33,638	40,380
Gross profit.....	4,890	6,634	11,698	11,997	16,032	11,356	15,593
Operating expenses:							
Selling, general and administrative(1).....	2,914	4,014	7,974	7,601	9,757	6,745	8,183
Research and development.....	847	1,034	1,451	1,591	1,663	1,280	1,737
Stock option compensation(2).....	--	--	--	--	--	--	856
Total operating expenses.....	3,761	5,048	9,425	9,192	11,420	8,025	10,776
Income from operations..	1,129	1,586	2,273	2,805	4,612	3,331	4,817
Interest expense.....	650	471	710	1,251	1,359	1,026	900
Income before income taxes and minority interest.....	479	1,115	1,563	1,554	3,253	2,305	3,917
Provision for income taxes.....	148	462	814	413	1,111	787	983
Income before minority interest.....	331	653	749	1,141	2,142	1,518	2,934
Minority interest.....	--	6	38	17	117	28	--
Net income.....	\$331	\$659	\$787	\$1,158	\$2,259	\$1,546	\$2,934
Pro forma net income(3)(4).....					\$2,308	\$1,643	\$3,026
Pro forma net income per share(3)(4)(5).....					\$0.37	\$0.26	\$0.48
Pro forma weighted average shares outstanding(4).....				6,308,126	6,304,158	6,327,234	

	JUNE 30,					MARCH 31,	
	1992	1993	1994	1995	1996	1997	
	(In thousands)						

<b>CONSOLIDATED BALANCE SHEET DATA:</b>							
Cash.....	\$546	\$941	\$625	\$1,405	\$581	\$1,612	
Working capital.....	3,728	3,852	2,280	12,117	6,044	9,940	
Total assets.....	10,548	15,739	25,807	30,780	35,309	44,314	

Total debt.....	6,090	6,882	11,140	14,113	15,462	11,387
Total shareholders' equity.....	1,677	2,256	3,128	4,951	7,194	14,982

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- (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.
- (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 September and November 1996 as if such transactions occurred on July 1, 1995. Pro forma adjustments for the year ended June 30, 1996 and each of the nine-month periods ended March 31, 1996 and 1997 consist of: (i) the elimination of interest expenses related to converted subordinated debt of \$166,000, \$125,000 and \$92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of \$117,000, \$28,000 and \$0, respectively.
- (4) Supplementary pro forma net income for the year ended June 30, 1996 and for each of the nine month periods ended March 31, 1996 and 1997 is \$2,913,000, \$2,086,000 and \$3,464,000, respectively, reflecting the reduction in interest expense, net of income taxes, from the effect of debt repayments discussed under "Use of Proceeds." Supplementary pro forma net income per share for the corresponding periods is \$0.41, \$0.29 and \$0.49, 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, 1995.



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 the nine month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$31.7 million, or approximately 56.6% of the Company's revenues, while revenues from sales of security and inspection products amounted to \$24.3 million, or approximately 43.4% 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. The Company markets its products worldwide through approximately 44 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 39.3% of revenues for the fiscal years 1995 and 1996 and for the nine months ended March 31, 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, fiscal 1996 and the nine-month period ended March 31, 1997 was 26.6%, 34.2% and 25.1%, 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,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	(In thousands)				
Optoelectronic devices and subsystems.....	\$34,729	\$37,977	\$45,007	\$33,493	\$36,228
(Inter-company eliminations).....	(1,257)	(1,529)	(6,392)	(5,424)	(4,551)
Unaffiliated optoelectronic devices and subsystems .....	33,472	36,448	38,615	28,069	31,677
Security and inspection products..	14,263	13,367	22,903	16,925	24,296
Total revenues.....	\$47,735	\$49,815	\$61,518	\$44,994	\$55,973

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,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
Revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold.....	75.5	75.9	73.9	74.8	72.2
Gross profit.....	24.5	24.1	26.1	25.2	27.8
Operating expenses:					
Selling, general and administrative.....	16.7	15.3	15.9	15.0	14.6
Research and development.....	3.0	3.2	2.7	2.8	3.1
Stock option compensation.....	--	--	--	--	1.5
Total operating expenses.....	19.7	18.5	18.6	17.8	19.2
Income from operations.....	4.8	5.6	7.5	7.4	8.6
Interest expense.....	1.5	2.5	2.2	2.3	1.6
Income before income taxes and minority interest.....	3.3	3.1	5.3	5.1	7.0
Provision for income taxes.....	1.7	0.8	1.8	1.7	1.8
Income before minority interest...	1.6	2.3	3.5	3.4	5.2
Minority interest.....	--	--	0.2	--	--
Net income.....	1.6%	2.3%	3.7%	3.4%	5.2%

COMPARISON OF THE NINE-MONTH PERIOD ENDED MARCH 31, 1997 TO THE NINE-MONTH PERIOD ENDED MARCH 31, 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 intercompany eliminations. For the nine-month period ended March 31, 1997, revenues increased by \$11.0 million, or 24.4%, to \$56.0 million from \$45.0 million in the comparable period ended March 31, 1996. Revenue from the sale of optoelectronic devices and subsystems, net of inter-company eliminations, increased by \$3.6 million, or 12.9%, to \$31.7 million from \$28.1 million in the comparable period ended March 31, 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. Revenue from the sale of security and inspection products increased by \$7.4 million, or 43.6%, to \$24.3 million from \$16.9 million in the comparable 1996 period. The increase was due mainly to the continued acceptance of the Rapiscan Series 500 EPX System, which was introduced in 1995, and growth in sales of the Rapiscan 119 tabletop model.

Gross Profit. Cost of goods sold consists of material, labor and manufacturing overhead. For the nine-month period ended March 31, 1997, gross profit increased by \$4.2 million, or 37.3%, to \$15.6 million from \$11.4 million in the comparable 1996 period. As a percentage of revenues, gross profit increased to 27.8% in the 1997 period from 25.2% in the comparable 1996 period. 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 the nine-month period ended March 31, 1997, such expenses increased by \$1.5 million, or 21.3%, to \$8.2 million from \$6.7 million in the comparable 1996 period. As a percentage of revenues, selling, general and administrative expenses decreased to 14.6% from 15.0%. 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 the nine-month period ended March 31, 1997, such expenses increased by \$457,000, or 35.7%, to \$1.7 million from \$1.3 million in the comparable 1996 period. As a percentage of revenues, research and development expenses increased to 3.1% from 2.8%. 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 the nine-month period ended March 31, 1997 increased by \$1.5 million, or 44.6%, to \$4.8 million from \$3.3 million for the comparable 1996 period. 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 the 1997 period, income from operations increased by \$2.3 million, or 70.3%, to \$5.7 million from \$3.3 million. As a percent of revenues, income from operations increased to 8.6% from 7.4%, and excluding the non-cash compensation expense referenced above, it would have increased to 10.1% from 7.4%.

Interest Expense. Interest expense for the nine-month period ended March 31, 1997 decreased by \$126,000, or 12.3%, to \$900,000 from \$1,026,000 during the comparable 1996 period. As a percentage of revenues, interest expense decreased to 1.6% from 2.3%. The decrease was due to the conversion of the Company's subordinated debt to preferred and common stock during the 1997 period, and to a decrease in the Company's borrowings outstanding under its lines of credit.

Provision for Income Taxes. Provision for income taxes for the nine-month period ended March 31, 1997 increased by \$196,000, or 24.9%, to \$983,000 from \$787,000 during the comparable 1996 period. As a percentage of income before provision for income taxes and minority interest, provision for income taxes decreased to 25.1% from 34.2% in the comparable 1996 period. 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 the nine-month period ended March 31, 1997, increased \$1.4 million, or 89.8%, to \$2.9 million from \$1.5 million in the comparable 1996 period. The compensation charge described above, decreased net income by \$514,000 in the 1997 period.

#### 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 intercompany 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 eleven consecutive quarters in the period ended March 31, 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, 1994	DEC. 31, 1994	MAR. 31, 1995	JUNE 30, 1995	SEPT. 30, 1995	DEC. 31, 1995	MAR. 31, 1996	JUNE 30, 1996	SEPT. 30, 1996	DEC. 31, 1996	MAR. 31, 1997
	(In thousands)										
Revenues.....	\$10,981	\$12,584	\$13,164	\$13,086	\$12,539	\$15,119	\$17,336	\$16,524	\$16,530	\$18,563	\$20,880
Cost of goods sold.....	8,500	9,537	10,104	9,677	9,657	11,382	12,599	11,848	11,884	13,286	15,210
Gross profit.....	2,481	3,047	3,060	3,409	2,882	3,737	4,737	4,676	4,646	5,277	5,670
Operating expenses:											
Selling, general and administrative..	1,598	1,984	1,875	2,144	1,879	2,126	2,740	3,012	2,737	2,686	2,760
Research and development.....	494	308	370	419	419	408	453	383	517	636	584
Stock option compensation....	--	--	--	--	--	--	--	--	--	--	856
Total operating expenses.....	2,092	2,292	2,245	2,563	2,298	2,534	3,193	3,395	3,254	3,322	4,200
Income from operations.....	389	755	815	846	584	1,203	1,544	1,281	1,392	1,955	1,470
Interest expense..	244	268	353	386	336	345	345	333	360	331	209
Income before income taxes and minority interest.....	145	487	462	460	248	858	1,199	948	1,032	1,624	1,261
Provision for income taxes.....	39	129	123	122	85	293	409	324	259	408	316
Income before minority interest.....	106	358	339	338	163	565	790	624	773	1,216	945
Minority interest.	14	4	6	(7)	19	17	(8)	89	--	--	--
Net income.....	\$ 120	\$ 362	\$ 345	\$ 331	\$ 182	\$ 582	\$ 782	\$ 713	\$ 773	\$ 1,216	\$ 945

The following table sets forth, as a percentage of revenues, certain consolidated statements of operations data for the four quarters in each of the years fiscal 1995 and 1996 and for the first three quarters of fiscal 1997.

	QUARTER ENDED										
	SEPT. 30, 1994	DEC. 31, 1994	MAR. 31, 1995	JUNE 30, 1995	SEPT. 30, 1995	DEC. 31, 1995	MAR. 31, 1996	JUNE 30, 1996	SEPT. 30, 1996	DEC. 31, 1996	MAR. 31, 1997
Revenues.....	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold.....	77.4	75.8	76.8	73.9	77.0	75.3	72.7	71.7	71.9	71.6	72.8
Gross profit.....	22.6	24.2	23.2	26.1	23.0	24.7	27.3	28.3	28.1	28.4	27.2
Operating expenses:											
Selling, general and administrative.	14.6	15.8	14.2	16.4	15.0	14.1	15.8	18.2	16.6	14.5	13.2
Research and development....	4.5	2.4	2.8	3.2	3.3	2.7	2.6	2.3	3.1	3.4	2.8
Stock option compensation...	--	--	--	--	--	--	--	--	--	--	4.1
Total operating expenses.....	19.1	18.2	17.0	19.6	18.3	16.8	18.4	20.5	19.7	17.9	20.1
Income from operations.....	3.5	6.0	6.2	6.5	4.7	7.9	8.9	7.8	8.4	10.5	7.1
Interest expense.	2.2	2.1	2.7	2.9	2.7	2.3	2.0	2.0	2.2	1.8	1.0
Income before income taxes and minority interest.....	1.3	3.9	3.5	3.6	2.0	5.6	6.9	5.8	6.2	8.7	6.1
Provision for income taxes....	.4	1.0	.9	1.0	.7	1.9	2.3	2.0	1.6	2.2	1.5
Income before minority interest.....	1.0	2.9	2.6	2.6	1.3	3.7	4.6	3.8	4.6	6.5	4.6
Minority interest.....	0.1	--	--	(0.1)	0.2	--	(0.1)	0.5	--	--	--
Net income.....	1.1%	2.9%	2.6%	2.5%	1.5%	3.7%	4.5%	4.3%	4.6%	6.5%	4.6%

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 March 31, 1997, the Company's principal sources of liquidity consisted of \$1.6 million in cash and several credit agreements described below.

The Company's operations provided net cash of \$5.1 million in the nine month period ended March 31, 1997. For the nine-month period ended March 31, 1997, the amount of net cash provided by operations reflects adjustments for depreciation and amortization, the increase in 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 the nine-month period ended March 31, 1997. Net cash provided by operations was offset in part by increases in receivables and inventories.

Net cash used in investing activities was \$1.7 million and \$2.2 million in the nine-month period ended March 31, 1997 and fiscal 1996, respectively, in each case due primarily to purchases of property and equipment in the amount of approximately \$1.5 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 the nine-month period ended March 31, 1997 was \$2.4 million 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 March 31, 1997, there was outstanding approximately \$4.9 million under the \$10.0 million line of credit, \$2.5 million under the term loan, and approximately \$154,000 under the letter of credit facility. As of March 31, 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 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 March 31, 1997, no amounts were outstanding 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 \$2.0 million was used as of March 31, 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 \$2.0 million at March 31, 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. The second agreement provides for a 750,000 pound sterling (approximately \$1.2 million as of March 31, 1997) facility for purchase of accounts receivable at 1.85% over a base rate and a 500,000 pound sterling (approximately \$820,000 as of March 31, 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 March 31, 1997, no amounts were outstanding under the line of credit and \$134,000 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 March 31, 1997). The agreement also provides for a term loan with borrowings of 434,000 Singapore dollars (approximately \$300,000 at March 31, 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 March 31, 1997 there was approximately \$1.4 million outstanding under the line of credit and approximately \$66,000 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 \$741,000 at March 31, 1997), of which \$354,000 was outstanding as of March 31, 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 March 31, 1997 outstanding term loan borrowings totalled approximately 3.4 million Norwegian krone (approximately \$504,000).

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), (\$21,000), and \$9,000 were included in income for fiscal 1994, 1995 and 1996 and for the nine-month period ended March 31, 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 the nine month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to \$31.7 million, or approximately 56.6%, of the Company's revenues, while revenues from sales of security and inspection products amounted to \$24.3 million, or approximately 43.4% 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 nine-month period ended March 31, 1997, approximately 28.4% 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 the nine-month period ended March 31, 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 and 1996, approximately 28.7% and 33.1%, 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 the nine-month period ended March 31, 1997, sales of the walk-through and hand-held metal detectors constituted 1.8% 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 twelve-month period ended March 31, 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	22.7%	Picker International Hologic, Inc.	7
Aerospace and Avionics	12.0%	InVision Technologies Kearfott Guidance Honeywell Avionics Litton Systems	9
Medical Monitoring	9.5%	Datascope BioChem International Criticare Systems	11
Analytical and Medical Diagnostics Equipment	6.7%	Johnson & Johnson Leica Bausch & Lomb	10
Office Automation and Computer Peripherals	6.3%	Xerox Eastman Kodak Hewlett-Packard	6
Construction, Robotics and Industrial Automation	4.9%	3M Spectra Physics Baumer Electric	8
Military/Defense and Weapons Simulations	3.3%	Lockheed Martin (Loral) Hughes (HDOS) Texas Instruments	5
Colorometry and Particle Analyzers	1.2%	Coulter Electronics CILAS	3
Bar Code Scanners	1.1%	Accuracy Microsensors Symbol Technologies Intermec	2
Gaming Industry	1.1%	Bally Gaming Dixie Narco	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.
HAJ 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 25 independent sales representatives and distributors. 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 21 employees located in the United States, the United Kingdom, Dubai, and Malaysia and through a network of over 70 independent sales representatives. 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 25 persons 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 for the nine-month period ended March 31, 1997, maintenance service revenues and replacement part sales collectively represented 3.3% and 3.1%, 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 March 31, 1997, in addition to the engineers that the Company employed in manufacturing, process design and applications development, the Company engaged approximately 32 full-time engineers and technicians in research and development. During the fiscal 1994, 1995, 1996 and nine-month period ended March 31, 1997, the Company's research and development expenses were approximately \$1.5 million, \$1.6 million, \$1.7 million and \$1.7 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 March 31, 1997, the Company's backlog products totalled approximately \$57.7 million, compared to approximately \$27.5 million at March 31, 1996. Substantially all of the Company's backlog as of March 31, 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 March 31, 1997, the Company employed approximately 730 people, of whom 570 were employed in manufacturing, 32 in research and development, 62 in finance and administration, 44 in sales and marketing, and 25 in its service organization. Of the total employees, approximately 470 were employed in the United States, 100 were employed in Europe, 160 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 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.

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.

Rapiscan U.S.A. is also involved in a dispute with Quantum Magnetics, Inc. ("Quantum"), EG&G Astrophysics, and EG&G Inc., which is EG&G Astrophysics' parent company. The dispute relates to Rapiscan U.S.A.'s July 5, 1996 agreement with Quantum to collaborate in the production and marketing of airport security and inspection scanners (the "July 5 Agreement"). On July 25, 1996, Quantum informed Rapiscan U.S.A. that Quantum was terminating the July 5 Agreement, although Rapiscan U.S.A. contends that this action constituted a breach of the July 5 Agreement.

On August 5, 1996, EG&G Astrophysics filed suit against Rapiscan U.S.A. in the Superior Court of the State of California, County of Los Angeles. EG&G Astrophysics claims that by entering into the July 5 Agreement, Rapiscan U.S.A. interfered with EG&G Astrophysics' own pre-existing contractual right to market scanners with Quantum. EG&G Astrophysics also asserts that Rapiscan U.S.A. falsely represented that Rapiscan U.S.A.'s security and inspection scanners were just as effective as EG&G Astrophysics' scanners, and that replacing EG&G Astrophysics' scanners with Rapiscan U.S.A.'s security and inspection scanners would be cost efficient. EG&G Astrophysics' First Amended Complaint contains six causes of action: intentional inducement of breach of contract, intentional interference with contract, intentional interference with economic relations, negligent interference with economic relations, slander per se, and trade libel. EG&G Astrophysics seeks compensatory damages of an indeterminate amount, as well as punitive damages and attorneys' fees. On December 14, 1996, the Court dismissed EG&G Astrophysics' slander per se and trade libel claims, without leave to amend. The Company believes that the remaining claims of EG&G Astrophysics are without merit and has received an opinion from its litigation counsel that the Company will be able to defend the lawsuit without any liability to Rapiscan U.S.A.

Rapiscan U.S.A. has filed a cross-complaint against Quantum, EG&G Astrophysics, and EG&G, Inc. Rapiscan U.S.A.'s First Amended Cross-Complaint asserts four causes of action against Quantum: breach of written contract, intentional misrepresentation, negligent misrepresentation and indemnity. Rapiscan U.S.A. alleges that Quantum made a series of misrepresentations in connection with the July 5 Agreement and that it failed to honor that agreement.

With respect to EG&G Astrophysics and EG&G, Inc., Rapiscan U.S.A. seeks recovery for intentional interference with contractual relations, intentional interference with prospective economic advantage, slander per se, trade libel, and breach of written agreement. Rapiscan U.S.A. alleges that EG&G Astrophysics and EG&G, Inc. interfered with Rapiscan U.S.A.'s relationship with Quantum and made false representations concerning Rapiscan U.S.A.'s solvency and its ability to fulfill its obligations. In addition, Rapiscan U.S.A. asserts that EG&G, Inc. breached an agreement not to disclose information pertaining to the prior resolution of a patent dispute between Rapiscan U.S.A. and EG&G, Inc.

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
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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).....	54	Director
Meyer Luskin(1).....	71	Director
Madan G. Syal(1).....	70	Director

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 (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 animal food and waste product business. 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, 1996, each non-employee Director received, as additional director compensation, options to purchase 11,250 shares of Common Stock at an exercise price of \$2.00 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, 1996, 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 Fund, 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 fund 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, 1996, 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 (#)
Deepak Chopra(1)..... Chief Executive Officer	\$317,107	\$25,000	0
Ajay Mehra ..... Chief Financial Officer	150,342	8,000	0
Andreas F. Kotowski .... President of U.S. Operation, Rapiscan U.S.A.	113,357	0	0
Manoocher Mansouri Aliabadi..... Vice President-- Corporate Marketing, UDT Sensors	95,075	5,000	0
Thomas K. Hickman ..... Managing Director, OSI Malaysia and OSI Singapore	125,466	0	15,000

(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.

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.

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 August 1996 based on their performances during the fiscal year ended June 30, 1996.

Option Grants. The following table sets forth certain information concerning grants of options to the Named Executive Officers during the year ended June 30, 1996:

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)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)	
					5% (\$)	10% (\$)
Thomas K. Hickman(2)....	15,000	87.0%	2.50	6/3/01	\$ 10,361	\$ 22,894

- (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 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) This grant was made in June 1996. One half of the total number of options granted was exercisable on the first anniversary of the grant date; one quarter is exercisable on each of the second and third anniversary dates.

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 1996 and held by them on June 30, 1996:

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

NAME	SHARES		NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FISCAL YEAR- END (#)		VALUE OF UNEXERCISED IN- THE-MONEY OPTIONS AT FISCAL YEAR END (\$)(1)	
	ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Deepak Chopra.....	0	--	0	0	0	0
Ajay Mehra.....	2,250	\$27,375	46,500	7,500	532,850	83,750
Andreas F. Kotowski.....	0	--	0	0	0	0
Manoocher Mansouri Aliabadi.....	3,000	\$36,500	12,750	1,500	150,125	17,250
Thomas K. Hickman.....	0	--	10,500	19,500	119,175	216,125

- (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 May 31, 1997, 384,375 shares had been issued upon the exercise of stock options under the 1987 Plan, stock options to purchase an aggregate of 430,500 shares were outstanding under the 1987 Plan at exercise prices ranging from \$0.17 to \$3.33 per share, and 235,125 shares remained available for grant. As of such date, stock options to purchase 381,188 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 indemnification agreements ("Indemnification Agreement(s)") with each of its directors and executive officers prior to the consummation of the Offering. Each such Indemnification Agreement will provide that the Company will indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgements, 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, other than an action instituted by the 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 Indemnification 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 Indemnification Agreement will permit the director or officer that is party thereto to bring suit to seek recovery of amounts due under the Indemnification 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) an agreement by the Company to issue to the holders of the Option Shares up to 45,486 additional shares of Common Stock based on the net income before taxes of Rapiscan U.S.A. and Rapiscan UK combined for the fiscal year ending June 30, 1997. The number of shares to be issued after June 30, 1997 cannot yet be accurately established. 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, fiscal 1996 and the nine-month period ended March 31, 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 for such services during fiscal 1996 and approximately \$87,000 for such services during the nine-month period ended March 31, 1997. 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 for such services during fiscal 1996 and approximately \$64,000 for such services during the nine-month period ended March 31, 1997.

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 May 31, 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	30.6%	148,148	1,726,852	18.3%
Sally F. Chamberlain(6)(7).....	1,170,375	19.1	47,593	1,122,782	11.9
Deepak Chopra(6)(8).....	1,539,484	25.0	0	1,539,484	16.2
Ajay Mehra(9).....	193,413	3.1	0	193,413	2.0
Andreas F. Kotowski(10).....	110,852	1.8	0	110,852	1.2
Manoocher Mansouri Aliabadi(11).	73,607	1.2	0	73,607	*
Thomas K. Hickman(12).....	27,000	*	0	27,000	*
Steven C. Good(13).....	40,500	*	21,896	18,604	*
Madan G. Syal(14).....	241,125	3.9	25,926	215,199	2.3
Meyer Luskin(15).....	20,625	*	0	20,625	*
Good Swartz & Berns Pension Fund(16).....	148,125	2.4	3,000	145,125	1.5
Leila and Birender Mehra.....	25,500	*	3,704	21,796	*
Zev and Elaine Edelstein Trust..	77,679	1.3	9,259	68,420	*
Mohinder and Ranjana 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	*
Taheri and Durriya Rangwala.....	52,500	*	7,407	45,093	*
Cynthia G. Fleischer.....	15,750	*	15,750	0	--
Gary F. Fleischer.....	14,625	*	14,625	0	--
Cathleen A. Fleischer.....	14,625	*	14,625	0	--
Mark and Penny Berns Trust.....	9,732	*	5,982	3,750	*
Arnold and Hope Anisgarten.....	9,287	*	5,709	3,578	*
Rajiv Mehra.....	1,607	*	450	1,157	*
Surendra 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).....	2,259,106	35.9	47,822	2,211,284	23.0

\* 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 May 31, 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 (79,260); 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 Fund (3,309); Leila and Birender Mehra (3,704); Zev and Elaine Edelstein Trust (9,259); Mohinder and Ranjana Chopra (11,111); Glenn P. Sorenson (11,111); Charles and Kiran M. Kerpelman (9,259); Martha B. Holmes (9,259); Taheri and Durriya Rangwala (7,407); Susan Sutherland (7,407); Anuj Wadhawan (7,407); Bette Moore (7,407); Robert Kephart (5,556); Phillip M. Wascher (7,407); Charan Dewan (3,704); Jack Kimbro (1,111); Narayan Taneja (1,481); Dennis Noble (741); Peter Bui (741); Allan J. and Pamela Barnard (1,481); Christine Williams (741); Christopher Chin (926); Anthony S. and Suzie B. Crane (1,481); Khai Li (741); Mark and Penny Berns Trust (1,518); Arnold 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 Gladden (741). Susan Sutherland, Anuj Wadhawan, Bette Moore, Robert Kephart, Phillip M. Wascher, Charan Dewan, Jack Kimbro, Narayan Taneja, Dennis Noble, Peter Bui, Allan J. Barnard, Christine Williams, Christopher Chin, Khai Li, Louis Peters and Lincoln 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 (1,647,592, 17.4%); Sally F. Chamberlain (1,073,152, 11.3%); Deepak Chopra (1,354,299, 14.3%); Ajay Mehra (160,080, 1.7%); Andreas F. Kotowski (92,333); Manoocher Mansouri Aliabadi (58,792); Thomas K. Hickman (23,296); Steven C. Good (3,000); Madan G. Syal (196,680, 2.1%); Good Swartz & Berns Pension Fund (141,816, 1.5%); Leila and Birender Mehra (18,092); Zev and Elaine Edelstein Trust (59,161); Mohinder and Ranjana Chopra (54,630); Glenn P. Sorenson (54,630); Charles and Kiran M. Kerpelman (46,839); Martha B. Holmes (41,482); Taheri and Durriya Rangwala (37,686); Susan Sutherland (35,343); Anuj Wadhawan (29,835); Bette Moore (28,218); Robert Kephart (22,944); Phillip M. Wascher (19,593); Charan Dewan (16,171); Jack Kimbro (15,389); Narayan Taneja (23,698); Dennis Noble (11,446); Peter Bui (7,884); Allan J. and Pamela Barnard (8,382); Christine Williams (6,384); Christopher Chin (6,199); Anthony S. and Suzie B. Crane (11,019); Khai Li (8,409); Mark and Penny Berns Trust (2,232); Arnold 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 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 May 31, 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 May 31, 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 May 31, 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 May 31, 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 May 31, 1997. Mr. Hickman is the Managing Director of OSI Singapore and OSI Malaysia. See "Management."

- (13) Includes 22,500 shares held by the Steve Cary Good & Bari Anne Good Trust and 18,000 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 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 5,625 shares issuable pursuant to options exercisable within 60 days of May 31, 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.
- (17) Includes 6,429 shares held by Surendra 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 May 31, 1997, 6,128,874 shares of Common Stock were outstanding, held of record by 73 shareholders. After completion of the Offering, there will be 9,458,874 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 9,458,874 shares of Common Stock outstanding (assuming no exercise of stock options after May 31, 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 5,758,874 shares will be "restricted securities" as defined in Rule 144 ("Restricted Shares"). Of such Restricted Shares, approximately 5,731,000 Restricted Shares (or approximately 5,176,000 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 94,589 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 5,731,000 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 5,731,000 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 Commission's 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 March 31, 1997 and June 30, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the nine months ended March 31, 1997 and the years ended June 30, 1996, 1995 and 1994. 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 March 31, 1997 and June 30, 1996 and 1995, and the results of their operations and their cash flows for the nine months ended March 31, 1997 and the years ended June 30, 1996, 1995 and 1994 in conformity with generally accepted accounting principles.

Deloitte & Touche llp

Los Angeles, California  
June 12, 1997

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	JUNE 30,		MARCH 31,
	1995	1996	1997
	-----		
ASSETS (NOTE 4)			
Current Assets:			
Cash.....	\$ 1,405	\$ 581	\$ 1,612
Accounts receivable, net of allowance for doubtful accounts of \$53, \$276 and \$294 at June 30, 1995, June 30, 1996 and March 31, 1997, respectively (Note 1).....	12,841	13,295	15,450
Other receivables (Note 2).....	589	783	1,643
Inventory (Note 1).....	10,069	13,642	15,472
Prepaid expenses.....	388	633	665
Deferred income taxes (Notes 1 and 7).....	490	700	1,127
	-----		
Total current assets.....	25,782	29,634	35,969
	-----		
Property and Equipment, Net (Notes 1 and 4):.....	4,257	4,454	5,654
Intangible and Other Assets, Net (Notes 1, 2 and 3)..	741	1,221	2,691
	-----		
Total.....	\$30,780	\$35,309	\$44,314
	=====		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Bank lines of credit (Note 4).....	\$ 1,452	\$ 7,783	\$ 6,723
Current portion of long-term debt (Note 6 and 13)..	1,232	1,491	1,601
Current portion of senior subordinated debt (Note 5).....		2,500	
Accounts payable.....	6,402	6,522	7,665
Accrued payroll and related expenses.....	960	1,667	1,587
Income taxes payable.....	147	799	1,759
Advances from customers.....	36	219	2,733
Other accrued expenses and current liabilities.....	3,436	2,609	3,961
	-----		
Total current liabilities.....	13,665	23,590	26,029
Bank Line of Credit (Note 4).....	4,829		
Senior Subordinated Debt (Note 5).....	3,075	575	
Long-Term Debt (Note 6 and 13).....	3,525	3,113	3,063
Deferred Income Taxes (Notes 1 and 7).....	629	827	240
Minority Interest (Note 1).....	106	10	
	-----		
Total liabilities.....	25,829	28,115	29,332
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, 1995 and 1996 and 2,568,750 shares at March 31, 1997 (Note 10).....	1,514	1,514	4,014
Common stock, no par value; authorized, 4,500,000 shares; issued and outstanding, 1,842,007, 1,858,132 and 2,207,124 shares at June 30, 1995 and 1996 and March 31, 1997, respectively.....	543	560	2,913
Retained earnings.....	2,735	4,994	7,928
Cumulative foreign currency translation adjustment (Note 1).....	159	126	127
	-----		
Total shareholders' equity.....	4,951	7,194	14,982
	-----		
Total.....	\$30,780	\$35,309	\$44,314
	=====		

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,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	-----				
	(Unaudited)				
Revenues.....	\$47,735	\$49,815	\$ 61,518	\$ 44,994	\$ 55,973
Cost of goods sold.....	36,037	37,818	45,486	33,638	40,380
	-----				
Gross profit.....	11,698	11,997	16,032	11,356	15,593
Operating expenses:					
Selling, general and administrative expenses (Note 11 and 12).....	7,974	7,601	9,757	6,745	8,183
Research and development (Note 1).....	1,451	1,591	1,663	1,280	1,737
Stock option compensation (Note 9)..					856
	-----				
Total operating expenses..	9,425	9,192	11,420	8,025	10,776
	-----				
Income from operations...	2,273	2,805	4,612	3,331	4,817
Interest expense (Notes 4, 5, 6 and 11).....	710	1,251	1,359	1,026	900
	-----				
Income before provision for income taxes and minority interest.....	1,563	1,554	3,253	2,305	3,917
Provision for income taxes (Notes 1 and 7)...	814	413	1,111	787	983
	-----				
Income before minority interest in net loss of subsidiaries.....	749	1,141	2,142	1,518	2,934
Minority interest in net loss of subsidiaries (Note 1).....	38	17	117	28	--
	-----				
Net income.....	\$ 787	\$ 1,158	\$ 2,259	\$ 1,546	\$ 2,934
	=====				
Historical net income....			\$ 2,259	\$ 1,546	\$ 2,934
Interest on subordinated debt, net of income taxes.....			166	125	92
Minority interest in net loss of subsidiaries....			(117)	(28)	--
	-----				
Pro forma net income....			\$ 2,308	\$ 1,643	\$ 3,026
	=====				
Pro forma net income per share (Note 1).....			\$ 0.37	\$ 0.26	\$ 0.48
	=====				
Weighted average common shares used in the calculation of pro forma net income per share....			6,308,126	6,304,158	6,327,234

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 ADJUSTMENT	TOTAL
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT			
BALANCE, JULY 1, 1993...	1,123,750	\$1,124	1,628,257	\$ 335	\$ 790	\$ 6	\$ 2,255
Exercise of stock options.....	--	--	75,000	28	--	--	28
Translation adjustment.....	--	--	--	--	--	58	58
Net income.....	--	--	--	--	787	--	787
BALANCE, JUNE 30, 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.....	--	--	49,500	79	--	--	79
Conversion of debt....	1,250,000	2,500	120,536	225	--	--	2,725
Minority interest acquisitions.....	--	--	178,956	1,193	--	--	1,193
Stock option compensation.....	--	--	--	856	--	--	856
Translation adjustment.....	--	--	--	--	--	1	1
Net income.....	--	--	--	--	2,934	--	2,934
BALANCE, MARCH 31, 1997.	2,568,750	\$4,014	2,207,124	\$2,913	\$7,928	\$127	\$14,982

See accompanying notes to consolidated financial statements.

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

	YEAR ENDED JUNE 30,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	(Unaudited)				
Cash flows from operating activities:					
Net income.....	\$ 787	\$ 1,158	\$ 2,259	\$ 1,546	\$ 2,934
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Minority interest in net loss of subsidiaries.....	(38)	(17)	(117)	(28)	
Provision for losses on accounts receivable.....	150	(70)	404	346	97
Depreciation and amortization.....	1,074	1,551	2,014	1,426	1,686
Stock option compensation..					856
Deferred income taxes.....	(150)	240	(12)	--	(1,014)
Gain on sale of property and equipment.....	(22)	(11)	(13)	--	
Changes in operating assets and liabilities, net of business acquisition:					
Accounts receivable.....	(7,289)	(1,239)	(858)	(397)	(1,582)
Other receivables.....	(541)	226	(194)	(800)	(827)
Inventory.....	(2,059)	(2,599)	(4,068)	(4,113)	(1,444)
Prepaid expenses.....	28	(139)	(245)	(253)	(32)
Accounts payable.....	2,973	221	120	1,657	980
Accrued payroll and related expenses.....	(232)	191	707	36	(80)
Income taxes payable.....	113	(217)	652	595	960
Advances from customers..	(22)	9	183	(3)	1,771
Other accrued expenses and current liabilities.....	3,470	(87)	(827)	(1,214)	806
	(1,758)	(783)	5	(1,202)	5,111
Cash flows from investing activities:					
Proceeds from sale of property and equipment....	70	142	120		
Additions to property and equipment.....	(1,459)	(1,396)	(1,612)	(1,287)	(1,530)
Cash paid for business acquisition, net of cash acquired.....					(302)
Cash paid for minority interest.....		(160)			
Other assets.....	(14)	(662)	(688)	(273)	135
	(1,403)	(2,076)	(2,180)	(1,560)	(1,697)
Cash flows from financing activities:					
Net proceeds from (repayment of) bank lines of credit...	2,227	2,668	1,502	2,382	(1,363)
Payments on senior subordinated debt.....		(700)			(350)
Payments on junior subordinated debt.....		(280)			
Payments on long-term debt..	(660)	(1,095)	(1,250)	(1,000)	(3,399)
Proceeds from issuance of long-term debt.....	1,191	2,806	1,097	558	2,646
Proceeds from exercise of stock options and warrants.	28	145	17	17	79
Proceeds from issuance of minority interest.....	1		21	20	
	2,787	3,544	1,387	1,977	(2,387)
Effect of exchange rate					



changes on cash.....	58	95	(36)	--	4
	-----	-----	-----	-----	-----
Net (decrease) increase in					
cash.....	(316)	780	(824)	(785)	1,031
Cash, beginning of period.....	941	625	1,405	1,405	581
	-----	-----	-----	-----	-----
Cash, end of period.....	\$ 625	\$ 1,405	\$ 581	\$ 620	\$ 1,612
	=====	=====	=====	=====	=====
Supplemental disclosures of					
cash flow information--Cash					
paid during the period for:					
Interest.....	\$ 691	\$ 1,229	\$ 1,346	\$ 992	\$ 902
Income taxes.....	\$ 620	\$ 82	\$ 377	\$ 368	\$ 1,261

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 the nine months ended March 31, 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 the nine months ended March 31, 1997, the Company acquired the minority interest of its two majority-owned subsidiaries through the issuance of 178,956 shares of common stock. The excess of the fair value of the common stock of \$1,193 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.....	(370)
Liability incurred.....	(546)
	-----
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 September and November 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, if any, to be issued is based upon the net income of the subsidiary for the year ended June 30, 1997, not to exceed 45,486 shares.

Unaudited Interim Financial Information -- The accompanying consolidated statements of income and of cash flows for the nine months ended March 31, 1996 have been prepared in accordance with generally accepted accounting principles for interim periods and are unaudited; however, in management's opinion, they include all adjustments (consisting of only normal recurring adjustments) necessary for a fair presentation of results for such interim periods.

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, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
Raw materials.....	\$ 5,004	\$ 7,795	\$ 9,122
Work-in-process.....	2,597	3,114	4,300
Finished goods.....	2,468	2,733	2,050
Total.....	\$10,069	\$13,642	\$15,472
	=====	=====	=====

## 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, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
Equipment.....	\$5,247	\$ 6,280	\$ 7,438
Leasehold improvements.....	1,426	1,601	1,963
Tooling.....	1,397	1,558	1,775
Furniture and fixtures.....	626	488	570
Computer equipment.....	1,025	1,283	1,639
Vehicles.....	122	93	152
Total.....	9,843	11,303	13,537
Less accumulated depreciation and amortization.....	5,586	6,849	7,883
Property and equipment, net.....	\$4,257	\$ 4,454	\$ 5,654

Intangibles and Other Assets -- Intangible and other assets at June 30, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
Software development costs.....	\$494	\$ 588	\$ 588
Goodwill.....	--	--	1,769
Deposits.....	168	262	227
Other.....	111	524	426
Total.....	773	1,374	3,010
Less accumulated amortization.....	32	153	319
Intangible and other assets, net.....	\$741	\$1,221	\$2,691

Goodwill in the amount of \$1,181,000 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 nine months ended March 31, 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 (\$19,000), \$76,000, (\$123,000), (\$21,000), and \$9,000 were included in income for the years ended June 30, 1994, 1995, and 1996 and for the nine months ended March 31, 1996, (unaudited) and 1997, respectively.

Earnings Per Share -- Historical net income per share is not presented because it is not indicative of the ongoing operations of the Company. Pro forma net income and net income per share has been presented to reflect the effect of the conversion of certain subordinated debt into preferred stock and the subsequent conversion of the preferred stock into shares of the Company's common stock (see Notes 5 and 10).

Pro forma earnings per share information is computed using the weighted average number of shares of common stock outstanding and dilutive common equivalent shares from 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 pro forma weighted average number of common and common equivalent shares using the treasury stock method as if they were outstanding for each period for which pro forma earnings per share is presented.

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.

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.

OSI SYSTEMS, INC. AND SUBSIDIARIES

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 March 31, 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 the nine months ended March 31, 1997, the Company earned a technical fee from the joint venture in the amount of \$200,000 and \$115,000, respectively. At March 31, 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 purchase price of \$916,000 consisted of cash of \$370,000 with the balance of \$546,000 payable by June 15, 1997. 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, 1993, pro forma consolidated sales for the years ended June 30, 1994, 1995 and 1996 and for the nine months ended March 31, 1996 (unaudited) and 1997 would have been \$50,735,000, \$53,338,000, \$65,371,000, \$47,827,000 and \$58,557,000, 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, 1995 and 1996 and March 31, 1997, line of credit borrowings consisted of the following (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
Line of credit -- U.S.....	\$4,829	\$6,361	\$4,927
Line of credit -- Singapore.....	1,452	1,422	1,442
Line of credit -- Norway.....			354
Total bank lines of credit.....	<u>\$6,281</u>	<u>\$7,783</u>	<u>\$6,723</u>

## 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 March 31, 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. 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 March 31, 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 March 31, 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. No amounts were outstanding under this agreement at March 31, 1997. The agreement also provides a commitment for letters of credit up to \$5,000,000. At March 31, 1997 approximately \$1,997,000 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 March 31, 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 March 31, 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 \$741,000 at March 31, 1997). Borrowings under the line of credit bear interest at a variable rate, which was 6.65% at March 31, 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 \$2,050,000 at March 31, 1997), line of credit borrowings up to 750,000 pound sterling (approximately \$1,230,000 at March 31, 1997) and a 500,000 pound sterling (approximately \$820,000 at March 31, 1997) borrowing facility for tender and performance bonds. Borrowings under the overdraft facility bear interest at a base rate (6.0% at March 31, 1997) plus 2%. Borrowings under the line of credit bear interest at the base rate plus 1.85%. Interest is payable monthly. Borrowings under this agreement are secured by certain assets of the subsidiary and are guaranteed by the Company. Approximately \$134,000 was outstanding under performance bonds at March 31, 1997.

OSI SYSTEMS, INC. AND SUBSIDIARIES

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 \$1,000,000 at March 31, 1997) for performance bonds and standby letter of credits. This line expires in October 1997. No amounts were outstanding under this agreement at March 31, 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 nine months ended March 31, 1997, all of the debt outstanding under the various agreements was repaid or converted as summarized in the following table (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
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	\$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	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	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	175	--
Total senior subordinated debt.....	3,075	3,075	--
Less current portion.....	--	2,500	--
Total long-term portion.....	\$3,075	\$ 575	\$--



OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

6. LONG-TERM DEBT

At June 30, 1995 and 1996 and March 31, 1997, long-term debt consisted of the following (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
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....	\$2,240	\$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....	950	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 March 31, 1997) plus 0.50%, principal due in monthly installments of \$52,083 until paid in full on March 31, 2001.....	--	--	\$2,500
Term loan payable to a Norwegian bank, interest due quarterly at a rate of 5.75% principal due in monthly installments of \$12,148 until paid in full on June 1, 2001.....	--	--	504
Term loan payable, interest accrued monthly at 8.00%, paid in full on April 2, 1997.....	--	--	296
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.5% at March 31, 1997) plus 2.25%, principal due in monthly installments of \$8,333 until paid in full on November 30, 1997.....	242	141	62
Liability under settlement agreements, interest computed at the 52 week treasury bill rate (5.66% at March 31, 1997), principal due \$300,000 in 1998, and \$400,000 in 1999.....	1,300	1,000	700
Other.....	25	535	602
	4,757	4,604	4,664
Less current portion of long-term debt.....	1,232	1,491	1,601
Long-term portion of debt.....	\$3,525	\$3,113	\$3,063

Fiscal year principal payments of long-term debt as of March 31, 1997 are as follows (in thousands):

1997 (3 months).....	\$ 555
1998.....	1,278
1999.....	1,317
2000.....	896
2001.....	618
Total.....	\$4,664

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,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	----- (Unaudited) -----				
Pretax income:					
United States.....	\$ 547	\$1,277	\$1,965	\$1,053	\$1,904
Foreign.....	1,016	277	1,288	1,252	2,013
	-----				
Total pretax income.....	\$1,563	\$1,554	\$3,253	\$2,305	\$3,917
	=====				

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

	YEAR ENDED JUNE 30,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	----- (Unaudited) -----				
Current:					
Federal.....	\$ 487	\$ 43	\$ 510	\$364	\$ 1,286
State.....	139	3	21	16	54
Foreign.....	338	127	592	407	657
	-----				
Deferred.....	964	173	1,123	787	1,997
	(150)	240	(12)	--	(1,014)
	-----				
Total provision.....	\$ 814	\$413	\$1,111	\$787	\$ 983
	=====				

Deferred income tax assets (liabilities) at June 30, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

	JUNE 30,		MARCH 31, 1997
	1995	1996	
	-----		
Expenses not currently deductible.....	\$ 518	\$ 873	\$ 1,491
State income taxes.....	49	--	--
Other.....	143	--	411
	-----		
Total deferred income tax assets.....	710	873	1,902
	-----		
Depreciation.....	(309)	(145)	(82)
Capitalized software development costs.....	(158)	(214)	(154)
State income taxes.....		(173)	(365)
Revitalization zone deductions.....	(182)	(278)	(354)
Other.....	(200)	(190)	(60)
	-----		
Total deferred income tax liabilities.....	(849)	(1,000)	(1,015)
	-----		
Net deferred income taxes.....	\$(139)	\$ (127)	\$ 887
	=====		

OSI SYSTEMS, INC. AND SUBSIDIARIES

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,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
				(Unaudited)	
Provision for income taxes at federal statutory rate.....	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
State income taxes (credits), net of federal benefit.....	1.3	(2.6)	0.2	0.2	(5.2)
Nontaxable earnings of FSC....	(3.8)	(7.1)	(5.7)	(5.7)	(5.8)
Research and development tax credits.....	--	(2.8)	--	--	(2.3)
Foreign income subject to tax at other than federal statutory rate.....	3.2	0.7	1.1	1.1	0.2
Government settlement.....	16.8	--	--	--	--
Other.....	(0.4)	3.4	3.6	3.6	3.2
Effective income tax rate.....	52.1 %	26.6 %	34.2 %	34.2 %	25.1 %

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 March 31, 1997 undistributed earnings of the foreign subsidiaries amounted to \$3,022,000. 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 March 31, 1997 are as follows: (3 months) 1997, \$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 \$825,000, \$959,000, \$901,000, \$725,000, and \$670,000 for the years ended June 30, 1994, 1995, and 1996 and the nine months ended March 31, 1996 (unaudited) 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.

Additional litigation involves claims that the Company interfered with pre-existing contractual rights of the plaintiff, who is claiming breach of contract and interference with contract, and is seeking compensatory damages of an indeterminate amount, as well as punitive damages and attorneys' fees. The Company has filed

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

a cross-complaint claiming breach of contract and misrepresentation and seeks recovery for intentional interference with contractual relations, intentional interference with prospective economic advantage, slander per se, trade libel, and breach of written agreement. The Company has been informed by its counsel that the Company will be able to defend the lawsuit without any liability to the Company.

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.

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 nine months ended March 31, 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, 1994, 1995 and 1996 and for the nine months ended March 31, 1997:

	NUMBER OF OPTIONS	OPTION PRICE	
		WEIGHTED AVERAGE	TOTAL
Outstanding, July 1, 1993.....	355,125	\$1.10	\$ 390,000
Granted.....	37,500	2.33	88,000
Exercised.....	(75,000)	0.37	(28,000)
Canceled.....	(9,750)	1.03	(10,000)
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, July 1, 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.....	318,375	1.70	541,000
Granted.....	235,125	2.98	701,000
Exercised.....	(49,500)	1.60	(79,000)
Canceled.....	(5,250)	2.00	(10,000)
Outstanding, March 31, 1997.....	499,125	\$2.31	\$1,153,000

The following summarizes pricing and term information for options outstanding as of March 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING AT MARCH 31, 1997	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED EXERCISABLE AT MARCH 31, 1997	WEIGHTED AVERAGE EXERCISE PRICE
\$0.17 to 0.67.....	58,500	0.8 years	\$0.45	58,500	\$0.45
1.87 to 2.00.....	150,750	2.3	1.95	118,688	1.94
2.33 to 3.33.....	289,875	4.1	2.87	272,625	2.89
\$0.17 to 3.33.....	499,125	3.2	\$2.31	449,813	\$2.32

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 for the nine months ended March 31, 1997 pursuant to SFAS 123 was approximately \$19,000 and \$1,045,000, respectively. Had the Company adopted SFAS 123, pro forma net income would have been \$2,297,000 and \$2,913,000, and pro forma net income per share would have been \$0.36 and \$0.46 for 1996 and for the nine months ended March 31, 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 6.28% 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.

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Preferred stock is entitled to the same one vote per share as common stock and has a liquidation preference of \$1.00 per preferred share.

In June 1997 holders of the preferred stock converted each preferred share into 1.5 shares of common stock.

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, 1994, 1995, and 1996 and for the nine months ended March 31, 1996 (unaudited) and 1997 are approximately \$61,000, \$77,000, \$83,000, \$65,000, and \$87,000 for messenger service and auto rental; \$68,000, \$78,000, \$63,000, \$42,000 and \$64,000 for printing services; and \$10,000, \$23,000, \$7,000, \$7,000 and \$3,000 for professional services, respectively. During the nine months ended March 31, 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 \$302,000, \$315,000, \$263,000, \$197,000 and \$146,000 for the years ended June 30, 1994, 1995, 1996 and the nine months ended March 31, 1996 (unaudited) 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 included in selling, general and administrative expense in the accompanying statement of operations for 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 March 31, 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 nine months ended March 31, 1997 and 1996 (unaudited) or for the years ended June 30, 1996, 1995 and 1994. 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

OSI SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

to provide for benefits accruing after that date. Pension expense for the years ended June 30, 1994, 1995, and 1996 and for the nine months ended March 31, 1996 (unaudited) and 1997 was approximately \$89,000, \$111,000, \$91,000, \$67,000 and \$64,000, respectively.

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, 1994				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues.....	\$29,788	\$13,624	\$4,323		\$47,735
Transfer between geographical areas.....	1,551	742	882	\$ (3,175)	--
Net revenues.....	\$31,339	\$14,366	\$5,205	\$ (3,175)	\$47,735
Operating income.....	\$ 1,028	\$ 564	\$ 653	\$ 28	\$ 2,273
Identifiable assets.....	\$29,266	\$ 9,629	\$2,923	\$(16,011)	\$25,807

	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

	NINE MONTHS ENDED MARCH 31, 1997				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues.....	\$41,241	\$12,388	\$ 2,344		\$55,973
Transfer between geographical areas.....	5,691	3,461	9,091	\$(18,243)	--
Net revenues.....	\$46,932	\$15,849	\$11,435	\$(18,243)	\$55,973

Operating income.....	=====	=====	=====	=====	=====
	\$ 2,691	\$ 1,040	\$ 1,190	\$ (104)	\$ 4,817
	=====	=====	=====	=====	=====
Identifiable assets.....	=====	=====	=====	=====	=====
	\$47,836	\$13,362	\$ 8,262	\$(25,146)	\$44,314
	=====	=====	=====	=====	=====



[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.....	26,275
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.....	167,216
	-----
Total.....	\$660,000*
	=====

\* The 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.

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 indemnification agreements ("Indemnification Agreement(s)") with each of its directors and executive officers prior to the consummation of the Offering. Each such Indemnification Agreement will provide that the Company will 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, other than an action instituted by the 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 Indemnification Agreement will permit the director or officer that is party thereto to bring suit to seek recovery of amounts due under the Indemnification 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.

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.*
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 Indemnification 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.
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)
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)

EXHIBIT  
NUMBER  
-----

EXHIBIT DESCRIPTION  
-----

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.(1)
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.(1)
99.1	Criminal Plea and Sentencing Agreement between UDT Sensors, Inc. and U.S. Attorney's Office.
99.2	Agreement between UDT Sensors, Inc. and Department of Navy.

- -----  
\* To be filed by amendment.

(1) Previously filed with the Company's Registration Statement filed June 13, 1997.

(2) 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 1, 1997.

OSI SYSTEMS, INC.

/s/ DEEPAK CHOPRA

By: \_\_\_\_\_  
 Deepak Chopra  
 Chairman, Chief Executive Officer  
 and President

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
----- /s/ DEEPAK CHOPRA ----- Deepak Chopra	Chairman, Chief Executive Officer and President (Principal Executive Officer)	August 1, 1997
----- /s/ AJAY MEHRA ----- Ajay Mehra	Vice President, Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer)	August 1, 1997
----- * ----- Steven C. Good	Director	August 1, 1997
----- * ----- Meyer Luskin	Director	August 1, 1997
----- * ----- Madan G. Syal	Director	August 1, 1997
*By: /s/ DEEPAK CHOPRA -----		August 1, 1997

Deepak Chopra  
 as Attorney-In-Fact



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 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 =====
Nine Months Ended March 31, 1997.....	\$276 =====	\$ 97 =====	-- ===	79 ===	\$294 =====

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.\*
  - 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 Indemnification 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.
  - 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)
  - 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.(1)
  - 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.(1)
  - 99.1 Criminal Plea and Sentencing Agreement between UDT Sensors, Inc. and U.S. Attorney's Office.
  - 99.2 Agreement between UDT Sensors, Inc. and Department of Navy.

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\* To be filed by amendment.

(1) Previously filed with the Company's Registration Statement filed June 13, 1997.

(2) Replaces the exhibit previously filed with the corresponding exhibit number.

1997 STOCK OPTION PLAN  
OF  
OSI SYSTEMS, INC.

1. PURPOSES OF THE PLAN  
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The purposes of the 1997 Stock Option Plan (the "Plan") of OSI Systems, Inc., a California corporation (the "Company"), are to:

- (a) Encourage selected employees, directors and consultants to improve operations and increase profits of the Company;
- (b) Encourage selected employees, directors and consultants to accept or continue employment or association with the Company or its Affiliates; and
- (c) Increase the interest of selected employees, directors and consultants in the Company's welfare through participation in the growth in value of the common stock of the Company (the "Common Stock").

Options granted under this Plan ("Options") may be "incentive stock options" ("ISOs") intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (the "Code"), or "nonqualified options" ("NQOs").

2. ELIGIBLE PERSONS  
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Every person who at the date of grant of an Option is an employee of the Company or of any Affiliate (as defined below) of the Company is eligible to receive NQOs or ISOs under this Plan. Every person who at the date of grant is a consultant to, or non-employee director of, the Company or any Affiliate (as defined below) of the Company is eligible to receive NQOs under this Plan. The term "Affiliate" as used in the Plan means a parent or subsidiary corporation as defined in the applicable provisions (currently Sections 424(e) and (f), respectively) of the Code. The term "employee" includes an officer or director who is an employee of the Company. The term "consultant" includes persons employed by, or otherwise affiliated with, a consultant.

3. STOCK SUBJECT TO THIS PLAN; MAXIMUM NUMBER OF GRANTS  
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Subject to the provisions of Section 6.1.1 of the Plan, the total number of shares of stock which may be issued under Options granted pursuant to this Plan shall not exceed 850,000 shares of Common Stock (which gives effect to a 1.5-for-1 stock split of the Common Stock (the "Stock Split") to be effected in June 1997). The shares covered by the portion of any grant under the Plan which expires unexercised shall become available again for grants under the Plan. No eligible person shall be granted Options during any twelve-month period covering more than 425,000 shares (which gives effect to the Stock Split to be effected in June 1997).

#### 4. ADMINISTRATION

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(a) The Plan shall be administered by the Board of Directors of the Company (the "Board") or by a committee (the "Committee") to which administration of the Plan, or of part of the Plan, is delegated by the Board (in either case, the "Administrator"). The Board shall appoint and remove members of the Committee in its discretion in accordance with applicable laws. If necessary in order to comply with Rule 16b-3 under the Exchange Act and Section 162(m) of the Code, the Committee shall, in the Board's discretion, be comprised solely of "non-employee directors" within the meaning of said Rule 16b-3 and "outside directors" within the meaning of Section 162(m) of the Code. The foregoing notwithstanding, the Administrator may delegate nondiscretionary administrative duties to such employees of the Company as it deems proper and the Board, in its absolute discretion, may at any time and from time to time exercise any and all rights and duties of the Administrator under the Plan.

(b) Subject to the other provisions of this Plan, the Administrator shall have the authority, in its discretion: (i) to grant Options; (ii) to determine the fair market value of the Common Stock subject to Options; (iii) to determine the exercise price of Options granted; (iv) to determine the persons to whom, and the time or times at which, Options shall be granted, and the number of shares subject to each Option; (v) to interpret this Plan; (vi) to prescribe, amend, and rescind rules and regulations relating to this Plan; (vii) to determine the terms and provisions of each Option granted (which need not be identical), including but not limited to, the time or times at which Options shall be exercisable; (viii) with the consent of the optionee, to modify or amend any Option; (ix) to defer (with the consent of the optionee) the exercise date of any Option; (x) to authorize any person to execute on behalf of the Company any instrument evidencing the grant of an Option; and (xi) to make all other determinations deemed necessary or advisable for the administration of this Plan. The Administrator may delegate nondiscretionary administrative duties to such employees of the Company as it deems proper.

(c) All questions of interpretation, implementation, and application of this Plan shall be determined by the Administrator. Such determinations shall be final and binding on all persons.

5. GRANTING OF OPTIONS; OPTION AGREEMENT

(a) No Options shall be granted under this Plan after 10 years from the date of adoption of this Plan by the Board.

(b) Each Option shall be evidenced by a written stock option agreement, in form satisfactory to the Administrator, executed by the Company and the person to whom such Option is granted.

(c) The stock option agreement shall specify whether each Option it evidences is an NQO or an ISO.

(d) Subject to Section 6.3.3 with respect to ISOs, the Administrator may approve the grant of Options under this Plan to persons who are expected to become employees, directors or consultants of the Company, but are not employees, directors or consultants at the date of approval, and the date of approval shall be deemed to be the date of grant unless otherwise specified by the Administrator.

6. TERMS AND CONDITIONS OF OPTIONS

Each Option granted under this Plan shall be subject to the terms and conditions set forth in Section 6.1. NQOs shall be also subject to the terms and conditions set forth in Section 6.2, but not those set forth in Section 6.3. ISOs shall also be subject to the terms and conditions set forth in Section 6.3, but not those set forth in Section 6.2.

6.1 Terms and Conditions to Which All Options Are Subject. All Options

granted under this Plan shall be subject to the following terms and conditions:

6.1.1 Changes in Capital Structure. Subject to Section 6.1.2, if

the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, or recapitalization, combination or reclassification, appropriate adjustments shall be made by the Board in (a) the number and class of shares of stock subject to this Plan and each Option outstanding under this Plan, and (b) the exercise price of each outstanding Option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustments. Each such adjustment shall be subject to approval by the Board in its sole discretion.

6.1.2 Corporate Transactions. In the event of the proposed

dissolution or liquidation of the Company, the Administrator shall notify each optionee at least 30 days prior to such proposed action. To the extent not previously exercised, all Options will terminate immediately prior to the consummation of such proposed action; provided, however, that the Administrator, in the exercise of his sole discretion, may permit exercise of any Options prior to their termination, even if such Options were not otherwise exercisable. In the event of a merger or consolidation of the Company with or into another corporation or entity in which the Company does not survive, or in

the event of a sale of all or substantially all of the assets of the Company in which the shareholders of the Company receive securities of the acquiring entity or an affiliate thereof, all Options shall be assumed or equivalent options shall be substituted by the successor corporation (or other entity) or a parent or subsidiary of such successor corporation (or other entity); provided, however, that if such successor does not agree to assume the Options or to substitute equivalent options therefor, the Administrator, in the exercise of its sole discretion, may permit the exercise of any of the Options prior to consummation of such event, even if such Options were not otherwise exercisable.

6.1.3 Time of Option Exercise. Subject to Section 5 and Section  
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6.3.4, Options granted under this Plan shall be exercisable (a) immediately as of the effective date of the stock option agreement granting the Option, or (b) in accordance with a schedule as may be set by the Administrator (in any case, the "Vesting Base Date") and specified in the written stock option agreement relating to such Option. In any case, no Option shall be exercisable until a written stock option agreement in form satisfactory to the Company is executed by the Company and the optionee. Notwithstanding the foregoing, to the extent required by applicable laws, rules and regulations, the right to exercise Options granted pursuant to this Plan shall vest at the rate of at least 20% per year from the date of grant.

6.1.4 Option Grant Date. The date of grant of an Option under this  
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Plan shall be the date as of which the Administrator approves the grant.

6.1.5 Nontransferability of Option Rights. Except with the express  
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written approval of the Administrator which approval the Administrator is authorized to give only with respect to NQOs, no Option granted under this Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. During the life of the optionee, an Option shall be exercisable only by the optionee.

6.1.6 Payment. Except as provided below, payment in full, in cash,  
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shall be made for all stock purchased at the time written notice of exercise of an Option is given to the Company, and proceeds of any payment shall constitute general funds of the Company. The Administrator, in the exercise of its absolute discretion after considering any tax, accounting and financial consequences, may authorize any one or more of the following additional methods of payment:

(a) Acceptance of the optionee's full recourse promissory note for all or part of the Option price, payable on such terms and bearing such interest rate as determined by the Administrator (but in no event less than the minimum interest rate specified under the Code at which no additional interest would be imputed), which promissory note may be either secured or unsecured in such manner as the Administrator shall approve (including, without limitation, by a security interest in the shares of the Company);

(b) Subject to the discretion of the Administrator and the terms of the stock option agreement granting the Option, delivery by the optionee of shares of Common Stock already owned by the optionee for all or part of the Option price, provided the fair market value (determined as set forth in Section 6.1.10) of such shares of Common Stock is equal on the date of exercise to the Option price, or such portion thereof as the optionee is authorized to pay by delivery of such stock; and

(c) Subject to the discretion of the Administrator, through the surrender of shares of Common Stock then issuable upon exercise of the Option, provided the fair market value (determined as set forth in Section 6.1.10) of such shares of Common Stock is equal on the date of exercise to the Option price, or such portion thereof as the optionee is authorized to pay by surrender of such stock.

(d) By means of so-called cashless exercises as permitted under applicable rules and regulations of the Securities and Exchange Commission and the Federal Reserve Board.

6.1.7 Termination of Employment. If for any reason other than death

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or permanent and total disability, an optionee ceases to be employed by the Company or any of its Affiliates (such event being called a "Termination"), Options held at the date of Termination (to the extent then exercisable) may be exercised in whole or in part at any time within three months of the date of such Termination, or such other period of not less than 30 days after the date of such Termination as is specified in the Option Agreement or by amendment thereof (but in no event after the Expiration Date); provided, however, that if such exercise of the Option would result in liability for the optionee under Section 16(b) of the Exchange Act, then such three-month period automatically shall be extended until the tenth day following the last date upon which optionee has any liability under Section 16(b) (but in no event after the Expiration Date). If an optionee dies or becomes permanently and totally disabled (within the meaning of Section 22(e)(3) of the Code) while employed by the Company or an Affiliate or within the period that the Option remains exercisable after Termination, Options then held (to the extent then exercisable) may be exercised, in whole or in part, by the optionee, by the optionee's personal representative or by the person to whom the Option is transferred by devise or the laws of descent and distribution, at any time within six months after the death or six months after the permanent and total disability of the optionee or any longer period specified in the Option Agreement or by amendment thereof (but in no event after the Expiration Date). For purposes of this Section 6.1.7, "employment" includes service as a director or as a consultant. For purposes of this Section 6.1.7, an optionee's employment shall not be deemed to terminate by reason of sick leave, military leave or other leave of absence approved by the Administrator, if the period of any such leave does not exceed 90 days or, if longer, if the optionee's right to reemployment by the Company or any Affiliate is guaranteed either contractually or by statute.

6.1.8 Withholding and Employment Taxes. At the time of exercise of

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an Option and as a condition thereto, or at such other time as the amount of such obligations becomes determinable (the "Tax Date"), the optionee shall remit to the Company in cash all applicable federal and state withholding and employment taxes. Such obligation to remit may be satisfied, if authorized by the Administrator in its sole discretion, after considering any tax, accounting and financial consequences, by the optionee's (i) delivery of a promissory note in the required amount on such terms as the Administrator deems appropriate, (ii) tendering to the Company previously owned shares of Stock or other securities of the Company with a fair market value equal to the required amount, or (iii) agreeing to have shares of Common Stock (with a fair market value equal to the required amount) which are acquired upon exercise of the Option withheld by the Company.

6.1.9 Other Provisions. Each Option granted under this Plan may

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contain such other terms, provisions, and conditions not inconsistent with this Plan as may be determined by the Administrator, and each ISO granted under this Plan shall include such provisions and conditions as are necessary to qualify the Option as an "incentive stock option" within the meaning of Section 422 of the Code.

6.1.10 Determination of Value. For purposes of the Plan, the fair

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market value of Common Stock or other securities of the Company shall be determined as follows:

(a) If the stock of the Company is regularly quoted by a recognized securities dealer, and selling prices are reported, its fair market value shall be the closing price of such stock on the date the value is to be determined, but if selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for such stock on the date the value is to be determined (or if there are no quoted prices for the date of grant, then for the last preceding business day on which there were quoted prices).

(b) In the absence of an established market for the stock, the fair market value thereof shall be determined in good faith by the Administrator, with reference to the Company's net worth, prospective earning power, dividend-paying capacity, and other relevant factors, including the goodwill of the Company, the economic outlook in the Company's industry, the Company's position in the industry, the Company's management, and the values of stock of other corporations in the same or a similar line of business.

6.1.11 Option Term. Subject to Section 6.3.4, no Option shall be

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exercisable more than 10 years after the date of grant, or such lesser period of time as is set forth in the stock option agreement (the end of the maximum exercise period stated in the stock option agreement is referred to in this Plan as the "Expiration Date").



6.2 Terms and Conditions to Which Only NQOs Are Subject. Options granted

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under this Plan which are designated as NQOs shall be subject to the following terms and conditions:

6.2.1 Exercise Price. (a) Except as set forth in Section 6.2.1(b),

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the exercise price of a NQO shall be not less than 85% of the fair market value (determined in accordance with Section 6.1.10) of the stock subject to the Option on the date of grant.

(b) To the extent required by applicable laws, rules and regulations, the exercise price of a NQO granted to any person who owns, directly or by attribution under the Code (currently Section 424(d)), stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any Affiliate (a "Ten Percent Shareholder") shall in no event be less than 110% of the fair market value (determined in accordance with Section 6.1.10) of the stock covered by the Option at the time the Option is granted.

6.3 Terms and Conditions to Which Only ISOs Are Subject. Options granted

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under this Plan which are designated as ISOs shall be subject to the following terms and conditions:

6.3.1 Exercise Price. (a) Except as set forth in Section 6.3.1(b),

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the exercise price of an ISO shall be determined in accordance with the applicable provisions of the Code and shall in no event be less than the fair market value (determined in accordance with Section 6.1.10) of the stock covered by the Option at the time the Option is granted.

(b) The exercise price of an ISO granted to any Ten Percent Shareholder shall in no event be less than 110% of the fair market value (determined in accordance with Section 6.1.10) of the stock covered by the Option at the time the Option is granted.

6.3.2 Disqualifying Dispositions. If stock acquired by exercise of

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an ISO granted pursuant to this Plan is disposed of in a "disqualifying disposition" within the meaning of Section 422 of the Code (a disposition within two years from the date of grant of the Option or within one year after the transfer such stock on exercise of the Option), the holder of the stock immediately before the disposition shall promptly notify the Company in writing of the date and terms of the disposition and shall provide such other information regarding the Option as the Company may reasonably require.

6.3.3 Grant Date. If an ISO is granted in anticipation of

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employment as provided in Section 5(d), the Option shall be deemed granted, without further approval, on the date the grantee assumes the employment relationship forming the basis for such grant, and, in addition, satisfies all requirements of this Plan for Options granted on that date.

6.3.4 Term. Notwithstanding Section 6.1.11, no ISO granted to any

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Ten Percent Shareholder shall be exercisable more than five years after the date of grant.

7. MANNER OF EXERCISE

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(a) An optionee wishing to exercise an Option shall give written notice to the Company at its principal executive office, to the attention of the officer of the Company designated by the Administrator, accompanied by payment of the exercise price and withholding taxes as provided in Sections 6.1.6 and 6.1.8. The date the Company receives written notice of an exercise hereunder accompanied by payment of the exercise price will be considered as the date such Option was exercised.

(b) Promptly after receipt of written notice of exercise of an Option and the payments called for by Section 7(a), the Company shall, without stock issue or transfer taxes to the optionee or other person entitled to exercise the Option, deliver to the optionee or such other person a certificate or certificates for the requisite number of shares of stock. An optionee or permitted transferee of the Option shall not have any privileges as a shareholder with respect to any shares of stock covered by the Option until the date of issuance (as evidenced by the appropriate entry on the books of the Company or a duly authorized transfer agent) of such shares.

8. EMPLOYMENT OR CONSULTING RELATIONSHIP

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Nothing in this Plan or any Option granted hereunder shall interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate any optionee's employment or consulting at any time, nor confer upon any optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

9. CONDITIONS UPON ISSUANCE OF SHARES

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Shares of Common Stock shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended (the "Securities Act").

10. NONEXCLUSIVITY OF THE PLAN

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The adoption of the Plan shall not be construed as creating any limitations on the power of the Company to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options other than under the Plan.

11. MARKET STANDOFF  
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Each optionee, if so requested by the Company or any representative of the underwriters in connection with any registration of the offering of any securities of the Company under the Securities Act, shall not sell or otherwise transfer any shares of Common Stock acquired upon exercise of Options during the 180-day period following the effective date of a registration statement of the Company filed under the Securities Act; provided, however, that such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act after the date of adoption of this Plan which includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restriction until the end of such 180-day period.

12. AMENDMENTS TO PLAN  
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The Board may at any time amend, alter, suspend or discontinue this Plan. Without the consent of an optionee, no amendment, alteration, suspension or discontinuance may adversely affect outstanding Options except to conform this Plan and ISOs granted under this Plan to the requirements of federal or other tax laws relating to incentive stock options. No amendment, alteration, suspension or discontinuance shall require shareholder approval unless (a) shareholder approval is required to preserve incentive stock option treatment for federal income tax purposes or (b) the Board otherwise concludes that shareholder approval is advisable.

13. EFFECTIVE DATE OF PLAN; TERMINATION  
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This Plan shall become effective upon adoption by the Board provided, however, that no Option shall be exercisable unless and until written consent of the shareholders of the Company, or approval of shareholders of the Company voting at a validly called shareholders' meeting, is obtained within twelve months after adoption by the Board. If such shareholder approval is not obtained within such time, Options granted hereunder shall terminate and be of no force and effect from and after expiration of such twelve-month period. Options may be granted and exercised under this Plan only after there has been compliance with all applicable federal and state securities laws. This Plan (but not Options previously granted under this Plan) shall terminate within ten years from the date of its adoption by the Board.

14. DELIVERY OF FINANCIAL STATEMENTS  
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To the extent required by applicable laws, rules and regulations, the Company shall deliver to each optionee financial statements of the Company at least annually while such optionee holds an outstanding Option.

OSI SYSTEMS, INC.  
INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT (the "Agreement"), is made as of the \_\_\_ day of \_\_\_\_\_ 19\_\_ by and between OSI Systems, Inc., a California corporation (the "Company"), and \_\_\_\_\_ ("Optionee").

R E C I T A L

Pursuant to the 1997 Stock Option Plan (the "Plan") of the Company, the Board of Directors of the Company or a committee to which administration of the Plan is delegated by the Board of Directors (in either case, the "Administrator") has authorized the granting to Optionee of an incentive stock option to purchase the number of shares of Common Stock of the Company specified in Paragraph 1 hereof, at the price specified therein, such option to be for the term and upon the terms and conditions hereinafter stated.

A G R E E M E N T

NOW, THEREFORE, in consideration of the promises and of the undertakings of the parties hereto contained herein, it is hereby agreed:

1. Number of Shares; Option Price. Pursuant to said action of the \_\_\_\_\_ Administrator, the Company hereby grants to Optionee the option ("Option") to purchase, upon and subject to the terms and conditions of the Plan, \_\_\_\_\_ shares of Common Stock of the Company ("Shares") at the price of \$\_\_\_\_\_ per share.

2. Term. This Option shall expire on the day before the \_\_\_\_\_ anniversary (fifth anniversary if Optionee owns more than 10% of the voting stock of the Company or an Affiliate of the Company on the date of this Agreement) of the date hereof (the "Expiration Date") unless such Option shall have been terminated prior to that date in accordance with the provisions of the Plan or this Agreement. The term "Affiliate" as used herein shall have the meaning as set forth in the Plan.

3. Shares Subject to Exercise. Shares subject to exercise shall be 25% of \_\_\_\_\_ such Shares on and after the first anniversary of the date hereof, 50% of such Shares on and after the second anniversary of the date hereof, 75% of such Shares on and after the third anniversary of the date hereof and 100% of such Shares on and after the fourth anniversary of the date hereof. All Shares shall thereafter remain subject to exercise for the term specified in Paragraph 2 hereof, provided that Optionee is then and has continuously been in the employ of the Company, or its Affiliate, subject, however, to the provisions of Paragraph 6 hereof.

4. Method and Time of Exercise. The Option may be exercised by written

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notice delivered to the Company at its principal executive office stating the number of shares with respect to which the Option is being exercised, together with:

(A) a check or money order made payable to the Company in the amount of the exercise price and any withholding tax, as provided under Paragraph 5 hereof; or

(B) if expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the tender to the Company of shares of the Company's Common Stock owned by Optionee having a fair market value, as determined by the Administrator, not less than the exercise price, plus the amount of applicable federal, state and local withholding taxes; or

(C) if expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the Optionee's full recourse promissory note in a form approved by the Company; or

(D) if any other method such as cashless exercise is expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the tender of such consideration having a fair market value, as determined by the Administrator, not less than the exercise price, plus the amount of applicable federal, state and local withholding taxes.

Not less than 100 shares may be purchased at any one time unless the number purchased is the total number purchasable under such Option at the time. Only whole shares may be purchased.

5. Tax Withholding. In the event that this Option shall lose its

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qualification as an incentive stock option, as a condition to exercise of this Option, the Company may require Optionee to pay over to the Company all applicable federal, state and local taxes which the Company is required to withhold with respect to the exercise of this Option. At the discretion of the Administrator and upon the request of Optionee, the minimum statutory withholding tax requirements may be satisfied by the withholding of shares of Common Stock of the Company otherwise issuable to Optionee upon the exercise of this Option.

6. Exercise on Termination of Employment. If for any reason other than

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death or permanent and total disability, Optionee ceases to be employed by the Company or any of its Affiliates (such event being called a "Termination"), this Option (to the extent then exercisable) may be exercised in whole or in part at any time within three months of the date of such Termination, but in no event after the Expiration Date; provided, however, that if such exercise of this Option would result in liability for Optionee under Section 16(b) of the Securities Exchange Act of 1934, then such three-month period automatically shall be extended until the tenth day following the last date upon which Optionee has any liability under Section 16(b), but in no event after the Expiration Date. If Optionee dies or becomes permanently and totally disabled (as defined in the Plan) while employed by the Company or an Affiliate or within the period that this Option remains exercisable after Termination, this Option (to the extent then exercisable) may be exercised, in whole or in part, by Optionee, by Optionee's personal

representative or by the person to whom this Option is transferred by devise or the laws of descent and distribution, at any time within six months after the death or six months after the permanent and total disability of Optionee, but in no event after the Expiration Date. In the event this Option is treated as a nonqualified stock option, then and to that extent, "employment" would include service as a director or as a consultant. For purposes of this Paragraph 6, Optionee's employment shall not be deemed to terminate by reason of sick leave, military leave or other leave of absence approved by the Administrator, if the period of any such leave does not exceed 90 days or, if longer, if Optionee's right to reemployment by the Company or any Affiliate is guaranteed either contractually or by statute.

7. Nontransferability. This Option may not be assigned or transferred

except by will or by the laws of descent and distribution, and may be exercised only by Optionee during his lifetime and after his death, by his personal representative or by the person entitled thereto under his will or the laws of intestate succession.

8. Optionee Not a Shareholder. Optionee shall have no rights as a

shareholder with respect to the Common Stock of the Company covered by this Option until the date of issuance of a stock certificate or stock certificates to him upon exercise of this Option. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued.

9. No Right to Employment. Nothing in the Option granted hereby shall

interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate Optionee's employment or consulting at any time, nor confer upon Optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

10. Modification and Termination. The rights of Optionee are subject to

modification and termination in certain events as provided in Sections 6.1 and 6.3 of the Plan.

11. Restrictions on Sale of Shares. Optionee represents and agrees that,

upon his exercise of this Option, in whole or in part, unless there is in effect at that time under the Securities Act of 1933 a registration statement relating to the Shares issued to him, he will acquire the Shares issuable upon exercise of this Option for the purpose of investment and not with a view to their resale or further distribution, and that upon each exercise thereof he shall furnish to the Company a written statement to such effect, satisfactory to the Company in form and substance. Optionee agrees that any certificates issued upon exercise of this Option may bear a legend indicating that their transferability is restricted in accordance with applicable state or federal securities law. Any person or persons entitled to exercise this Option under the provisions of Paragraphs 5 and 6 hereof shall, upon each exercise of this Option under circumstances in which Optionee would be required to furnish such a written statement, also furnish to the Company a written statement to the same effect, satisfactory to the Company in form and substance.

12. Plan Governs. This Agreement and the Option evidenced hereby are made

and granted pursuant to the Plan and are in all respects limited by and subject to the express terms

and provisions of the Plan, as it may be construed by the Administrator. It is intended that this Option shall qualify as an incentive stock option as defined by Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), and this Agreement shall be construed in a manner which will enable this Option to be so qualified. Optionee hereby acknowledges receipt of a copy of the Plan.

13. Notices. All notices to the Company shall be addressed to the Chief

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Financial Officer at the principal executive office of the Company at 12525 Chadron Avenue, Hawthorne, California 90250, and all notices to Optionee shall be addressed to Optionee at the address of Optionee on file with the Company or its subsidiary, or to such other address as either may designate to the other in writing. A notice shall be deemed to be duly given if and when enclosed in a properly addressed sealed envelope deposited, postage prepaid, with the United States Postal Service. In lieu of giving notice by mail as aforesaid, written notices under this Agreement may be given by personal delivery to Optionee or to the Chief Financial Officer (as the case may be).

14. Sale or Other Disposition. Optionee understands that, under current

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law, beneficial tax treatment resulting from the exercise of this Option will be available only if certain requirements of the Code are satisfied, including without limitation, the requirement that no disposition of Shares acquired pursuant to exercise of this Option be made within two years from the grant date or within one year after the transfer of Shares to him or her. If Optionee at any time contemplates the disposition (whether by sale, gift, exchange, or other form of transfer) of any such Shares, he or she will first notify the Company in writing of such proposed disposition and cooperate with the Company in complying with all applicable requirements of law, which, in the judgment of the Company, must be satisfied prior to such disposition. In addition to the foregoing, Optionee hereby agrees that before Optionee disposes (whether by sale, exchange, gift, or otherwise) of any Shares acquired by exercise of this Option within two years of the grant date or within one year after the transfer of such Shares to Optionee upon exercise of this Option, Optionee shall promptly notify the Company in writing of the date and terms of the proposed disposition and shall provide such other information regarding the Option as the Company may reasonably require immediately before such disposition. Said written notice shall state the date of such proposed disposition, and the type and amount of the consideration to be received for such Share or Shares by Optionee in connection therewith. In the event of any such disposition, the Company shall have the right to require Optionee to immediately pay the Company the amount of taxes (if any) which the Company is required to withhold under federal and/or state law as a result of the granting or exercise of the Option and the disposition of the Shares.

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

OSI SYSTEMS, INC.

By \_\_\_\_\_  
Name:  
Title:

OPTIONEE

\_\_\_\_\_  
Name:  
Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

14.



OSI SYSTEMS, INC.  
NONQUALIFIED STOCK OPTION AGREEMENT

THIS NONQUALIFIED STOCK OPTION AGREEMENT (the "Agreement"), is made as of the \_\_\_\_ day of \_\_\_\_\_, 19\_\_ by and between OSI Systems, Inc., a California corporation (the "Company"), and \_\_\_\_\_ ("Optionee").

R E C I T A L

Pursuant to the 1997 Stock Option Plan (the "Plan") of the Company, the Board of Directors of the Company or a committee to which administration of the Plan is delegated by the Board of Directors (in either case, the "Administrator") has authorized the granting to Optionee of a nonqualified stock option to purchase the number of shares of Common Stock of the Company specified in Paragraph 1 hereof, at the price specified therein, such option to be for the term and upon the terms and conditions hereinafter stated.

A G R E E M E N T

NOW, THEREFORE, in consideration of the promises and of the undertakings of the parties hereto contained herein, it is hereby agreed:

1. Number of Shares; Option Price. Pursuant to said action of the \_\_\_\_\_ Administrator, the Company hereby grants to Optionee the option ("Option") to purchase, upon and subject to the terms and conditions of the Plan, \_\_\_\_\_ shares of Common Stock of the Company ("Shares") at the price of \$\_\_\_\_\_ per share.
2. Term. This Option shall expire on the day before the \_\_\_\_\_ anniversary of the date hereof (the "Expiration Date") unless such Option shall have been terminated prior to that date in accordance with the provisions of the Plan or this Agreement. The term "Affiliate" as used herein shall have the meaning as set forth in the Plan.
3. Shares Subject to Exercise. Shares subject to exercise shall be 25% \_\_\_\_\_ of such Shares on and after the first anniversary of the date hereof, 50% of such Shares on and after the second anniversary of the date hereof, 75% of such Shares on and after the third anniversary of the date hereof and 100% of such Shares on and after the fourth anniversary of the date hereof. All Shares shall thereafter remain subject to exercise for the term specified in Paragraph 2 hereof, provided that Optionee is then and has continuously been in the employ of or providing services to the Company, or its Affiliate, subject, however, to the provisions of Paragraph 6 hereof.

4. Method and Time of Exercise. The Option may be exercised by written

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notice delivered to the Company at its principal executive office stating the number of shares with respect to which the Option is being exercised, together with:

(A) a check or money order made payable to the Company in the amount of the exercise price and any withholding tax, as provided under Paragraph 5 hereof; or

(B) if expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the tender to the Company of shares of the Company's Common Stock owned by Optionee having a fair market value, as determined by the Administrator, not less than the exercise price, plus the amount of applicable federal, state and local withholding taxes; or

(C) if expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the Optionee's full recourse promissory note in a form approved by the Company; or

(D) if any other method such as cashless exercise is expressly authorized in writing by the Administrator, in its sole discretion, at the time of the Option exercise, the tender of such consideration having a fair market value, as determined by the Administrator, not less than the exercise price, plus the amount of applicable federal, state and local withholding taxes.

Not less than 100 shares may be purchased at any one time unless the number purchased is the total number purchasable under such Option at the time. Only whole shares may be purchased.

5. Tax Withholding. As a condition to exercise of this Option, the

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Company may require Optionee to pay over to the Company all applicable federal, state and local taxes which the Company is required to withhold with respect to the exercise of this Option. At the discretion of the Administrator and upon the request of Optionee, the minimum statutory withholding tax requirements may be satisfied by the withholding of shares of Common Stock of the Company otherwise issuable to Optionee upon the exercise of this Option.

6. Exercise on Termination of Employment. If for any reason other than

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death or permanent and total disability, Optionee ceases to be employed by the Company or any of its Affiliates (such event being called a "Termination"), this Option (to the extent then exercisable) may be exercised in whole or in part at any time within three months of the date of such Termination, but in no event after the Expiration Date; provided, however, that if such exercise of this Option would result in liability for Optionee under Section 16(b) of the Securities Exchange Act of 1934, then such three-month period automatically shall be extended until the tenth day following the last date upon which Optionee has any liability under Section 16(b), but in no event after the Expiration Date. If Optionee dies or becomes permanently and totally disabled (as defined in the Plan) while employed by the Company or an Affiliate or within the period that this Option remains exercisable after Termination, this Option (to the extent then exercisable) may be exercised, in whole or in part, by Optionee, by Optionee's personal

representative or by the person to whom this Option is transferred by devise or the laws of descent and distribution, at any time within six months after the death or six months after the permanent and total disability of Optionee, but in no event after the Expiration Date. For purposes of this Paragraph 6, "employment" includes service as a director or as a consultant. For purposes of this Paragraph 6, Optionee's employment shall not be deemed to terminate by reason of sick leave, military leave or other leave of absence approved by the Administrator, if the period of any such leave does not exceed 90 days or, if longer, if Optionee's right to reemployment by the Company or any Affiliate is guaranteed either contractually or by statute.

7. Nontransferability. Except with the express written approval of the

Administrator, this Option may not be assigned or transferred except by will or by the laws of descent and distribution, and may be exercised only by Optionee during his lifetime and after his death, by his personal representative or by the person entitled thereto under his will or the laws of intestate succession.

8. Optionee Not a Shareholder. Optionee shall have no rights as a

shareholder with respect to the Common Stock of the Company covered by this Option until the date of issuance of a stock certificate or stock certificates to him upon exercise of this Option. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued.

9. No Right to Employment. Nothing in the Option granted hereby shall

interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate Optionee's employment or consulting at any time, nor confer upon Optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

10. Modification and Termination. The rights of Optionee are subject to

modification and termination in certain events as provided in Sections 6.1 and 6.2 of the Plan.

11. Restrictions on Sale of Shares. Optionee represents and agrees that

upon his exercise of this Option, in whole or in part, unless there is in effect at that time under the Securities Act of 1933 a registration statement relating to the Shares issued to him, he will acquire the Shares issuable upon exercise of this Option for the purpose of investment and not with a view to their resale or further distribution, and that upon such exercise thereof he will furnish to the Company a written statement to such effect, satisfactory to the Company in form and substance. Optionee agrees that any certificates issued upon exercise of this Option may bear a legend indicating that their transferability is restricted in accordance with applicable state and federal securities law. Any person or persons entitled to exercise this Option under the provisions of Paragraphs 5 and 6 hereof shall, upon each exercise of this Option under circumstances in which Optionee would be required to furnish such a written statement, also furnish to the Company a written statement to the same effect, satisfactory to the Company in form and substance.

12. Plan Governs. This Agreement and the Option evidenced hereby are made

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and granted pursuant to the Plan and are in all respects limited by and subject to the express terms and provisions of the Plan, as it may be construed by the Administrator. Optionee hereby acknowledges receipt of a copy of the Plan.

13. Notices. All notices to the Company shall be addressed to the Chief

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Financial Officer at the principal executive office of the Company at 12525 Chadron Avenue, Hawthorne, California 90250, and all notices to Optionee shall be addressed to Optionee at the address of Optionee on file with the Company or its subsidiary, or to such other address as either may designate to the other in writing. A notice shall be deemed to be duly given if and when enclosed in a properly addressed sealed envelope deposited, postage prepaid, with the United States Postal Service. In lieu of giving notice by mail as aforesaid, written notices under this Agreement may be given by personal delivery to Optionee or to the Chief Financial Officer (as the case may be).

14. Sale or Other Disposition. If Optionee at any time contemplates the

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disposition (whether by sale, gift, exchange, or other form or transfer) of any Shares acquired by exercise of this Option, he or she shall first notify the Company in writing of such proposed disposition and cooperate with the Company in complying with all applicable requirements of law, which, in the judgment of the Company, must be satisfied prior to such disposition.

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

OSI SYSTEMS, INC.

By \_\_\_\_\_  
Name:  
Title:

OPTIONEE

By \_\_\_\_\_  
Name:  
Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## EXPATRIATE EMPLOYMENT AGREEMENT

This Agreement is made and effective this 11th day of July, 1995, by and between Opto Sensors, Inc., a California corporation having offices at 12525 Chadron Ave., Hawthorne, CA 90250 ("OSI") and Thomas K. Hickman, an individual residing at 10 Miwok Way, Inverness, CA 94937 ("Hickman").

OSI, through various subsidiary corporations, designs and manufactures electronic assemblies, among which are Opto Sensors, Singapore, a Singapore corporation having offices at 996 Bandemeer Road, #04-01/02, Singapore 1233 ("OSS") a wholly-owned subsidiary of OSI, and Opto Sensors, Malaysia, a Malaysian corporation having offices at Tebrau Industrial Estate No. 1, #8 Jalam Firma 2/2, 81200 Johor Bahru, Johor, Malaysia, a wholly-owned subsidiary of OSI.

OSI desires to employ Hickman as Managing Director of OSS and OSM for a period of not less than two years and Hickman agrees to serve as Managing Director for such term. After the initial term of two years, both parties agree to give a minimum of six months notice to the other of intent to terminate this agreement.

OSI agrees to offer Hickman a comparable position in the corporation upon termination of this agreement.

OSI will, with the full cooperation of Hickman but at the company's expense, assure that work permits or other authority to work in Singapore and Malaysia will be obtained and that permanent resident visas are obtained for Malaysia for Hickman and his wife.

OSI agrees to pay Hickman, from the time of his arrival in Malaysia, a salary of One Hundred Twenty Five Thousand dollars (\$125,000) per annum for the first year of this agreement in monthly installments of Ten Thousand Four Hundred Sixteen Dollars and Sixty Seven Cents (\$10,416.67) to be deposited in accounts in the United States, Singapore and Malaysia as directed by Hickman. At the beginning of this agreement, such deposits will be:

a. Seven Thousand Seven Hundred Fifty Dollars (\$7,750.00US)

b. One Thousand Three Hundred Thirty Three and 33/100 US dollars (\$1333.33US) in Singapore at an initial Exchange rate of \$1.00 US equals \$1.40

Singapore or One Thousand Eight Hundred Sixty Six and 67/100 Singapore Dollars (\$1866.67S),

c. One Thousand Three Hundred Thirty Three and 33/100 US Dollars (\$1333.33US) in Malaysia at a initial Exchange rate of \$1.00 US equals \$2.45 Malaysian or Three Thousand Two Hundred Sixty Six and 66/100 Malaysian Ringgit (\$3266.66M)

d. During the first month of residence in Malaysia, OSI will pay to Hickman the Malaysian Ringgit equivalent Five Thousand US Dollars, or Twelve Thousand two hundred fifty Ringgit (\$12,250.00M) as a one time payment for initial outfitting in Malaysia. Such payment will be deducted by OSI from that month's deposit to Hickman's US account.

e. The rates of exchange for deposits made in Singapore and Malaysia shall remain fixed for the first year of Hickman's employment at OSS/OSM and will be reexamined by the parties at the beginning of each successive year.

OSI agrees to provide housing selected by Hickman and utilities, for which payment will be made by OSM, for which Hickman agrees to reimburse the company or, alternatively, agrees to have the company deduct from Hickman's salary prior to deposit in the US, Singapore or Malaysia.

OSI agrees to provide an automobile selected by Hickman through OSM to Hickman for which Hickman agrees to reimburse the company or, alternatively, agrees to have the company deduct from Hickman's salary prior to deposit in the US, Singapore or Malaysia. Automobile insurance will be provided by the company as a company car.

OSI agrees to pay for packing, freight and cartage of Hickman's household goods to the place of residence in Malaysia, or to pay packing, cartage and storage of household goods not taken to Malaysia. Hickman agrees to schedule movement of household goods by sea and air to provide for a lowest cost combination of household goods move and temporary living accomodation and meal expenses. Estimates for material, packing, storage and transport will be provided for OSI review and agreement prior to Hickman's move to Malaysia.

OSI agrees, upon termination of this agreement and Hickman's employment in Malaysia, to pay to return Hickman's household goods from Malaysia or from storage whether or not Hickman returns to the US as an employee of OSI or one of its subsidiaries.

OSI agrees to provide temporary living accomodations and meal expenses for a period of not more than two weeks for Hickman and his wife during the period Hickman's household goods are in transit.





AGREEMENT FOR EXPATRIATE EMPLOYMENT IN SINGAPORE

1. This Agreement is made and effective this 11th day of July, 1995, by and between Opto Sensors, Inc., a California corporation having offices at 12525 Chadron Ave., Hawthorne, CA 90250 ("OSI") and Thomas K. Hickman, an individual residing at 10 Miwok Way, Inverness, CA 94937 ("Hickman").
2. OSI, through various subsidiary corporations, designs and manufactures electronic assemblies, among which are Opto Sensors, Singapore, a Singapore corporation having offices at 996 Bendemeer Road, #04-01/02, Singapore 1233 ("OSS") a wholly-owned subsidiary of OSI.
3. OSI desires to employ Hickman as Managing Director of OSS and OSM for a period of not less than two years and Hickman agrees to serve as Managing Director for such term. After the initial term of two years, both parties agree to give a minimum of six month's notice to the other of intent to terminate this agreement.
4. OSI will, with the full cooperation of Hickman but at the company's expense, assure that work permits or other authority to work in Singapore will be obtained and that permanent resident visas are obtained for Malaysia for Hickman and his wife.
5. For service as Managing Director of OSS, OSI agrees to pay Hickman a monthly salary of One Thousand Three Hundred Thirty Three and 33/100 US Dollars (\$1333.33US) in Singapore at an initial Exchange rate of \$1.00 US equals \$1.40 Singapore or One Thousand Eight Hundred Sixty Six and 67/100 Singapore Dollars (\$1866.67S),
6. The rates of exchange for deposits made in Singapore and Malaysia shall remain fixed for the first year of Hickman's employment at OSS/OSM and will be reexamined by the parties at the beginning of each successive year.
7. OSI agrees to provide housing and utilities for Hickman and his wife in Johor Bahru, Malaysia, for which payment will be made by OSM.
8. OSI agrees to pay for packing, freight and cartage of Hickman's household goods to the place of residence in Malaysia, or to pay packing, cartage and storage of household goods not taken to Malaysia. Hickman agrees to schedule



AGREEMENT FOR EXPATRIATE EMPLOYMENT IN MALAYSIA

1. This Agreement is made and effective this 11th day of July, 1995, by and between Opto Sensors, Inc., a California corporation having offices at 12525 Chadron Ave., Hawthorne, CA 90250 ("OSI") and Thomas K. Hickman, an individual residing at 10 Miwok Way, Inverness, CA 94937 ("Hickman").
2. OSI, through various subsidiary corporations, designs and manufactures electronic assemblies, among which are Opto Sensors, Malaysia, a Malaysian corporation having offices at Tebrau Industrial Estate No. 1, #8 Jalam Firma 2/2, 81200 Johor Bahru, Johor, Malaysia, a wholly-owned subsidiary of OSI.
3. OSI desires to employ Hickman as Managing Director of OSM for a period of not less than two years and Hickman agrees to serve as Managing Director for such term. After the initial term of two years, both parties agree to give a minimum of six month's notice to the other of intent to terminate this agreement.
4. OSI will, with the full cooperation of Hickman but at the company's expense, assure that work permits or other authority to work in Malaysia will be obtained and that permanent resident visas are obtained for Malaysia for Hickman and his wife.
5. For service as Managing Director of OSM, OSI agrees to pay Hickman a monthly salary of One Thousand Three Hundred Thirty Three and 33/100 US Dollars (\$1333.33US) in Malaysia at a initial Exchange rate of \$1.00 US equals \$2.45 Malaysian or Three Thousand Two Hundred Sixty Six and 66/100 Malaysian Ringgit (\$3266.66M).
6. During the first month of residence in Malaysia, OSI will pay to Hickman the Malaysian Ringgit equivalent Five Thousand Dollars, or Twelve Thousand Two Hundred Fifty Ringgit (\$12,250.00M) as a one time payment for initial outfitting in Malaysia.
7. The rates of exchange for deposits made in Singapore and Malaysia shall remain fixed for the first year of Hickman's employment at OSS/OSM and will be reexamined by the parties at the beginning of each successive year.
8. OSI agrees to provide housing and utilities for Hickman and his wife in Johor Bahru for which payment will be made by OSM.
9. OSI agrees to provide an automobile through OSM, of Malaysian registration, for business and personal use. Automobile insurance will be provided by the company as a company car.

10. OSI agrees to pay for packing, freight and cartage of Hickman's household goods to the place of residence in Malaysia, or to pay packing, cartage and storage of household goods not taken to Malaysia. Hickman agrees to schedule movement of household goods by sea and air to provide for a lowest cost combination of household goods move and temporary living accommodation and meal expenses. Estimates for material, packing, storage and transport will be provided for OSI review and agreement prior to Hickman's move to Malaysia.

11. OSI agrees, upon termination of this agreement and Hickman's employment in Malaysia, to pay to return Hickman's household goods from Malaysia or from storage whether or not Hickman returns to the US as an employee of OSI or one of its subsidiaries.

12. OSI agrees to provide temporary living accommodations and meal expenses for Hickman and his wife during the period Hickman's household goods are in transit.

13. OSI will pay, or reimburse Hickman for, annual round-trip home-leave coach airfare for himself and his wife to and from his current place of residence at a time of Hickman's choosing provided such time is not inconsistent with the needs of the company.

14. OSI will continue Hickman's current AETNA PPO Health Insurance coverage, or, upon any change of carrier by OSI or such subsidiary as may provide for Hickman's insurance, provide for transfer to such new carrier.

For OptoSensors, Inc.:

/s/ Ajay Mehra                      date:7/12/95    /s/ Thomas K. Hickman    date:7/12/95  
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its: Chief Financial Officer                      Thomas K. Hickman

JOINT VENTURE AGREEMENT

by and among

OPTO-SENSORS, INC.

and

ELECTRONICS CORPORATION OF INDIA, LIMITED

Dated as of 4th January, 1994.

JOINT VENTURE AGREEMENT

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THIS JOINT VENTURE AGREEMENT (this "Agreement") is made as of the 4th day of January, 1994 by and among Opto-Sensors, Inc. ("OSI"), a corporation organized under the laws of the State of California, U.S.A., and having its principal executive office at 12525 Chadron Avenue, Hawthorne, California 90250, U.S.A.; Electronics Corporation of India, Limited ("ECIL"), a corporation organized under the laws of India and having its registered office at Hyderabad, India (OSI and ECIL are collectively referred to as the "Stockholders"); and the Company (as defined in the first recital hereinbelow).

WHEREAS, OSI and ECIL desire to enter into this Agreement in order to, inter alia, organize a limited liability joint stock corporation under the laws of India (the "Company") to manufacture, assemble, test, market, sell and service the Products (as defined in Section 1.16 hereof) throughout India, and any other territories as are subsequently agreed upon in writing by both of the Stockholders (collectively, the "Territory"), on the terms and conditions set forth hereinafter; and

WHEREAS, the parties hereto desire to proceed with the establishment and operation of the Company upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants hereinafter set forth, the parties hereto hereby agree as follows:

ARTICLE 1  
DEFINITIONS

As used in this Agreement, the following terms shall, unless the context otherwise requires, have the meanings respectively ascribed to them below:

1.1 "ACT" shall have the meaning ascribed to it in Section 2.1 hereof.

1.2 "AFFILIATE" shall mean any individual or entity which directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the party specified by virtue of fifty-one percent (51%) or greater direct or indirect equity ownership (excluding holdings by the Government of India and by the other Directors of the Company.)

1.3 "ARTICLES" shall have the meaning ascribed to it in Section 2.5 hereof.

- 1.4 "BUSINESS" shall have the meaning ascribed to it in Section 12.2 hereof.
- 1.5 "COMPANY" shall have the meaning ascribed to it in the first recital hereto.
- 1.6 "COMPONENTS" shall have the meaning ascribed to it in Section 6.1 hereof.
- 1.7 "DEFAULTING STOCKHOLDER" shall have the meaning ascribed to it in Section 3.5 hereof.
- 1.8 "DISCLOSED PROPRIETARY TECHNOLOGY" shall have the meaning ascribed to it in Section 12.3 hereof.
- 1.9 "ECIL" shall have the meaning ascribed to it in the preamble hereto.
- 1.10 "EFFECTIVE DATE" shall have the meaning ascribed to it in Section 11.1 hereof.
- 1.11 "FISCAL YEAR" shall have the meaning ascribed to it in Section 2.10 hereof.
- 1.12 "LICENSES" shall have the meaning ascribed to it in Section 5.1 (a) hereof.
- 1.13 "MEMORANDUM" shall have the meaning ascribed to it in Section 2.6 hereof.
- 1.14 "OSI" shall have the meaning ascribed to it in the preamble hereto.
- 1.15 "OWNERSHIP PERCENTAGES" shall have the meaning ascribed to it in Section 3.2 hereof.
- 1.16 "PRODUCTS" shall mean single and multi-energy X-ray baggage inspection systems, explosive detectors, walk-through metal detectors and related security products as itemized on Schedule A attached hereto.
- 1.17 "PROPRIETARY TECHNOLOGY" shall mean engineering and technical data and information, know-how, trademarks and trade secrets, patentable and unpatentable inventions and confidential information.
- 1.18 "RECIPIENT" shall have the meaning ascribed to it in Section 12.3 hereof.
- 1.19 "RSPI" shall mean and refer to Rapiscan Security Products, Inc., a California corporation.

1.20 "STOCKHOLDERS" shall have the meaning ascribed to it in the preamble hereto.

1.21 "TERRITORY" shall have the meaning ascribed to it in the first recital hereto.

ARTICLE 2  
FORMATION OF COMPANY

2.1 Formation: Within [fifteen (15)] days following the Effective Date,

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or, if not reasonably practicable within the aforesaid period, as soon thereafter as is reasonably practicable, the Stockholders shall cause the Company to be organized and registered under the Indian Companies Act, 1956 (the "Act"), as a limited liability joint stock corporation.

2.2 Name: The name of the Company shall be "ECIL-RAPISCAN SECURITY

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PRODUCTS LIMITED".

2.3 Office: The registered office of the Company shall be located at

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Hyderabad, India.

2.4 Business Purposes: The general business purposes of the Company shall

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be to: (i) arrange for the manufacture, assembly and testing of the Products in India, (ii) market and sell the Products throughout the Territory, (iii) service the Products sold throughout the Territory, and (iv) engage in such other activities as may be incidental or necessary to the foregoing.

2.5 Articles of Association: The Articles of Association of the Company

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(the "Articles") shall conform with the terms and provisions of this Agreement and shall set forth such other provisions as are required under the laws of India or are generally included in articles of association of limited liability joint stock corporations organized under the Act.

2.6 Memorandum of Association: The Memorandum of Association of the

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Company (the "Memorandum") shall conform with the terms and provision of this Agreement and set forth such other provisions as are required under the laws of India or are generally included in memoranda of association of limited liability joint stock corporations organized under the Act.

2.7 Other Filings: The Stockholders shall at all times cause the Company

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to prepare and file all filings, reports, notices and other documents or instruments as may be necessary or appropriate to maintain the valid and legal existence of the Company under the laws of India.



2.8 Organizational Expenses: All costs and expenses related to the

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organization and registration of the Company shall be borne and promptly paid by ECIL, provided that, the Company shall reimburse ECIL for the reasonable amounts of money actually spent by ECIL after January 1, 1994 in forming the Company and in obtaining the requisite approvals pursuant to Section 12.1 hereof. Such reimbursements shall exclude all costs and expenses incurred by ECIL (including legal and other professional fees) (i) in the drafting and finalizing of the Articles, the Memorandum and any other organizational document, and (ii) in their filing with the relevant authorities pursuant hereto.

2.9 Ratification: As soon as practicable following its organization, the

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Stockholders shall cause the Company to ratify and confirm this Agreement through the execution hereof by its President and Financial Controller. Upon such execution, the Company shall become a party to, and shall be bound by all of the provisions of this Agreement.

2.10 Fiscal Year: The fiscal year ("Fiscal Year") of the Company shall end

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on the 31st of March each calendar year.

ARTICLE 3  
CAPITALIZATION

3.1 Capital Stock: The authorized capital stock of the Company shall

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consist of ten (10) lakh shares of a single class of equity shares having a par value of Ten Rupees (Rs.10) per share. Except as may be otherwise agreed upon in writing by the Stockholders, the Company shall have no other classes of capital stock.

3.2 Initial Capital: The initial paid-up capital of the Company shall

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consist of the sum of Rs.50,00,000 (Rupees fifty lakhs). Within five (5) days after the Effective Date, each Stockholder shall subscribe for equity shares of the Company in the respective percentages (as may be modified in accordance with the terms hereof, from time to time, (the "Ownership Percentages") set forth opposite its name below:

Stockholder	No. of Shares	Subscription Price	Ownership Percentage
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OSI	2,55,000	25,50,000	51%
ECIL	2,45,000	24,50,000	49%
TOTAL	5,00,000	50,00,000	100%

3.3 Payment: All subscriptions by the Stockholders for the Company's

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shares pursuant to Section 3.2 hereof shall be at par value, and shall be payable by each Stockholder by wire transfer

of available funds immediately to a bank account of the Company within three (3) days of the Effective Date. Notwithstanding the foregoing, any payment to be made by OSI under this Section 3.3 shall be subject to and conditioned upon any and all governmental approvals, permits, or consents required under any law, rule, regulation or administrative practice applicable to a funds transfer from a bank located in the United States to a bank located in India.

3.4 Additional Capital: Stockholders' Loans:  
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(a) The Stockholders shall contribute additional equity capital to the Company in proportion to their respective, then existing Ownership Percentages for purposes of the business and operating needs of the Company. In addition, the stockholders hereby agree to loan the following respective amounts to the company, on such terms and conditions as are mutually agreed to by the Stockholders, within ninety (90) days of the Effective Date:

Stockholder -----	Amount -----
OSI	Rs. 16,32,000
ECIL	Rs. 15,68,000

(b) The issuance price and number of shares of capital stock to be issued by the Company to the Stockholders in exchange for additional equity capital contributions and the time and manner of payment therefor shall be set forth in a written notice of capital call which shall be given by the Board of Directors of the Company to the Stockholders no less than twenty (20) days prior to the date specified in such notice for the contribution of additional capital. Except as may be otherwise mutually agreed upon in writing by the Stockholders, no Stockholder shall have any obligation to contribute additional capital to the Company other than as provided in this Section 3.4.

3.5 Defaults: Failure by a Stockholder (the "Defaulting Stockholder") to  
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contribute its pro-rata share of additional equity capital pursuant to Section 3.4 in the time and manner specified in the notice provided therefor shall constitute a material breach of this Agreement for purposes of Section 11.3(10) hereof. Notwithstanding the foregoing, the other Stockholder shall have the option in its absolute discretion to waive the default by a Defaulting Stockholder for purposes of Section 11.3(10) by a written waiver signed by the other Stockholder, provided, however, that no such waiver shall be deemed a continuing waiver or a waiver of any subsequent default under this Section 3.5 or of any other right or obligation under this Agreement. In the event of a waiver hereunder by the other Stockholder, the Ownership Percentage of each of the Stockholders shall be redetermined as of the date the additional equity

capital contribution is made by the other Stockholder and shares of the Company's capital stock are exchanged therefor to equal each Stockholder's respective percentage ownership of the then total outstanding shares of the capital stock of the Company.

3.6 Preemptive Rights: Except as may be mutually agreed otherwise in

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writing by the Stockholders, each Stockholder shall have a pre-emptive right vis-a-vis third parties to subscribe for and to purchase a portion of any new issuance of shares of capital stock by the Company in such amount as would be necessary for such Stockholder to maintain its respective, then existing Ownership Percentage.

3.7 Financing: The Stockholders shall cause the Company to the maximum

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extent practicable to borrow funds upon commercially reasonable terms and conditions from such commercial banks or other financial institutions as may be consistent with reasonable and prudent business practices for purposes of financing the Company's business and operating needs. Except as may be expressly agreed to in writing by both of the Stockholders, neither Stockholder shall have any obligation or commitment, except as otherwise expressly provided in Section 3.4(a) hereof, to loan funds to or to guarantee the borrowings of the Company, or to extend such Stockholder's own credit on behalf of the Company.

3.8 Company Banks. The Stockholders shall cause the Company to establish

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[lines of credit, deposit accounts and CC A/c] with no less than two commercial banks of established reputation organized under the laws of India. The foregoing commercial banks of the Company shall be jointly selected in good faith consultation between the Stockholders.

ARTICLE 4  
JOINT REPRESENTATIONS AND COVENANTS OF THE STOCKHOLDERS

4.1 Representations and Warranties: Each Stockholder represents and

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warrants to the other Stockholder that: (i) it is a corporation duly organized, validly existing and in good corporate standing under the laws of its jurisdiction of incorporation, (ii) it has full corporate power and authority to enter into and to perform this Agreement, and (iii) its execution and performance of this Agreement will not violate any provision of applicable law or regulation or its organizational instruments, and will not result in any material breach of any material contract or agreement by which it is bound.

4.2 Good Faith: Each Stockholder hereby agrees to exercise good faith at

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all times when dealing with the other Stockholder and with the Company, and to affirmatively promote and further the business and best interests of the Company.

ARTICLE 5  
UNDERTAKINGS OF OSI

5.1 Furnishing of Technology:  
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(a) OSI shall cause RSPI to grant a license to ECIL and the Company, for the term of this Agreement or such shorter period as the Company and ECIL duly perform and observe their obligations hereunder, of that portion of RSPI's Proprietary Technology necessary to enable ECIL and the Company to manufacture, assemble and test or to arrange for the manufacture, assembly and testing of the Products in the Territory (the "Operations"). OSI confirms that the Proprietary Technology of RSPI covered by the License shall be sufficient to permit the manufacture and assembly of the Products in complete form by the Company (or its sub-contractors) as contemplated hereunder. Notwithstanding Section 11.4 (b) hereof, and subject to terms and conditions that are agreed upon by the Stockholders prior to the termination of the Agreement, contemporaneously with the expiry of the natural term of this Agreement pursuant to Section 11.2 hereof, OSI shall cause RSPI to grant to the Company (i) a license to RSPI's Proprietary Technology required by the Company in its Operations, and (ii) any additional licenses granted pursuant to Section 5.1 (b) hereof (collectively the "Licenses").

(b) OSI shall cause RSPI to grant a license to ECIL and the Company, for the term of this Agreement or such shorter period as the Company and ECIL duly perform and observe their obligations hereunder, of any improvements developed by RSPI pertaining to the manufacture of the Products or their sale and distribution, and such improvements to the Products, as would be conducive to the furtherance of the business purposes described in Section 2.4 hereof. Nothing contained in this Section 5.1(b), however, shall be construed as requiring OSI to cause RSPI to furnish or disclose to the Company or to ECIL any information or data which RSPI or OSI is prohibited from transferring or disclosing by virtue of any restriction or obligation under any other agreements to which RSPI or OSI is a party or which RSPI is prohibited from transferring or disclosing under any applicable laws, rules or regulations.

(c) The board of directors of RSPI hereby agree to pass a resolution setting forth the terms necessary for the licensing of technology to the Company and by ECIL as more fully set forth in Section 5.1 (a) and 5.1 (b) hereof, and in the event RSPI is disassociated from OSI this Agreement shall remain in full force and shall be deemed to have the same effect as though executed by RSPI.

(d) RSPI hereby agrees to indemnify the Company and ECIL against any disputes or suits filed for the infringement of RSPI patents or other RSPI patent rights relating to the Proprietary Technology used in the Product.

(e) ECIL hereby agrees to indemnify the Company and OSI for the infringement of any patent or patent rights in respect of the Trent I technology being provided by ECIL to the Company pursuant hereto.

5.2 Inspection of Machinery and Supplies: OSI shall inspect the machinery -----  
and other items to be purchased from RSPI and its Affiliates by or on behalf of the Company before they are dispatched to the Company.

5.3 Training of Company's Personnel: OSI shall train in India, with -----  
ECIL's assistance, such number of personnel as are reasonably required by the Company so as to fulfill the business purposes of the Company more fully set forth in Section 2.4 hereof.

ARTICLE 6  
UNDERTAKINGS OF THE COMPANY

6.1 Purchase Obligations: The Company hereby agrees to purchase all the -----  
components initially required to manufacture the Products (the "Components") from OSI, or from other suppliers suggested by OSI, at a mutually agreeable price. However, if Components of similar quality and at similar or cheaper cost are manufactured and are available in a timely manner in India or abroad, the Company may at its discretion purchase such cheaper Components. All the Products manufactured by ECIL on behalf of the Company will be purchased by the Company on such terms, including price, as shall be negotiated by ECIL and the Company in good faith. However, if the Products manufactured by ECIL on behalf of the Company are available from any source whatsoever, at a cheaper price, after factoring into such price all applicable duties (payable abroad or in India), and are of the same quality as the Products manufactured by ECIL, the Company may at its discretion purchase such cheaper Products. The initial prices of the Components and the Products are set forth on Schedules "B" and "C" attached hereto and such Schedules are subject to revision from time to time depending on changes in the cost of inputs.

6.2 Supply of Components and Technology: The Company hereby agrees to -----  
provide ECIL with the Components necessary for ECIL to manufacture the Products on behalf of the Company.

ARTICLE 7  
UNDERTAKINGS OF ECIL

7.1 Manufacture of Products: ECIL hereby agrees to manufacture the

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Products for and on behalf of the Company. ECIL shall have the right to sub-contract various sub-assemblies of the Products (including the conveyor frame, PCB Blanks and other mechanical fabricated parts). However, all such subcontracts entered into by ECIL shall be at the risk of ECIL, and ECIL shall make good any loss caused to the Company due to defective parts, workmanship, delay in delivery or otherwise in connection with any such subcontract. ECIL agrees that without the prior written consent of OSI and the Company it will not sell the Products to any person or entity other than the Company.

7.2 Governmental Approvals: ECIL shall be responsible for obtaining, and

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shall use its best efforts to obtain, all the necessary governmental approvals for the formation of the Company, or for any of the other matters covered by this Agreement, including all necessary approvals of the Government of India and all other relevant Indian State Governments, but excluding all necessary approvals of any United States governmental entities.

7.3 Installation and Servicing of Products: ECIL shall use its marketing

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and servicing network to the extent necessary or desirable for the installation and servicing of the Products, if so requested by the Company, at a price and on such other terms to be mutually agreed upon by ECIL and the Company.

ARTICLE 8  
DIVIDENDS

8.1 Dividend. The Company's Board of Directors shall determine the amount

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and the timing of the declaration and the payment of any dividend by the Company to the Stockholders. The dividend payable to OSI shall be paid by the Company in U.S. dollars net of taxes, and all such taxes shall be paid by the Company.

ARTICLE 9  
MANAGEMENT AND OPERATIONS

9.1 Directors: The Board of Directors of the Company (the "Board") shall

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consist of six (6) or eight (8) members represented equally by OSI and ECIL. The Chairman of the Board of Directors shall be the Chairman of the Board of Directors of ECIL, who shall be included in the total number of directors nominated by ECIL pursuant hereto. The Stockholders shall vote their respective shares for the election of the directors so nominated and, in the event of a vacancy for any reason on the Board, shall vote their respective shares for the election of a

replacement director nominated by the Stockholder which had nominated the director whose death, resignation or removal had resulted in such vacancy. The term of a director of the Company shall be for one year or until the general meeting of the Company's stockholders following his or her appointment, whichever is later.

Veto Powers of the Chairman of Board: The Chairman shall have no veto powers on any of the issues that come before the Board.

9.2 Initial Directors: The Stockholders shall appoint, within five (5) business days of the Effective Date, the following persons to be the initial directors of the Company:

CHAIRMAN	Dr. C. RAO KASARABADA.
MANAGING DIRECTOR	L. SATYANARAYANA
DIRECTOR	K.S. MURTHY
DIRECTOR	DEEPAK CHOPRA
	ALTERNATE: Y.K. MEHTA/TOM SCHORLING
DIRECTOR	AJAY MEHRA
	ALTERNATE: ANTHONY CRANE/R.L. CHOPRA
DIRECTOR	BRIGADIER R.K. MEHTA

9.3 Auditors: The Company shall have one (1) independent auditor to be jointly selected by the Stockholders, provided, however, that the Company's initial independent auditor shall be M/S. Bhaskar Rao & Co., Chartered Accountants.

9.4 Initial Officers: The Stockholders shall cause the Board nominated pursuant hereto to appoint, within [ten (10)] business days of the Effective Date, the following persons to the respective offices set forth opposite their names as the initial officers of the Company:

PRESIDENT	L. SATYANARAYANA
FINANCIAL CONTROLLER	D.V. SARMA
COMMERCIAL MANAGER (DIRECTOR MARKETING)	BRIGADIER R.K. MEHTA

The term of the foregoing initial officers shall be one year initially and two years thereafter.

9.5 Permanent Management:

(a) Board of Directors: The business of the Company shall be managed by or under the direction and supervision of the Board, which may exercise all such powers of the Company and do all such lawful acts and things as are not by statute, the Articles, the Memorandum or this Agreement specifically directed

or required to be exercised or undertaken by the stockholders of the Company.

(b) Officers. The officers of the Company shall be appointed by the

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Board and shall consist of:

- (1) a President
- (2) a Financial Controller
- (3) a Commercial Manager
- (4) a Marketing Executive  
(i.e., Director Marketing)

Any number of offices may be held by the same person, unless the Articles otherwise provide. The Board shall, on the first anniversary of the date of the formation of the Company, appoint each of the officers of the Company. The officers of the Company so appointed shall serve for terms which shall be set forth in the respective contracts of appointment.

#### 9.6 Board Meetings:

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(a) General: All matters pertaining to actions and meetings by and of

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the Board shall be governed by the Articles which shall incorporate all of the relevant terms hereof, provided that, the Articles shall include a provision

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that all Board of Directors meetings shall be held in New Delhi, Bombay or in any other place that may be mutually convenient.

(b) Quorum Requirement: 1/3rd of the total strength of Directors (any

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fraction contained in that 1/3rd being rounded off as one) or two Directors (whichever is higher) shall constitute the quorum for a Board of Directors meeting, provided that, at least one Director nominated by ECIL and one Director

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(or an alternate Director) nominated by OSI present at the meeting shall be required to constitute such quorum.

(c) Notice Requirement: Written notice of an extraordinary general

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meeting of the Company's Board of Directors stating the place, date and hour of the meeting shall be given to each Director not less than twenty one (21) nor more than sixty (60) days before the date of such meeting. Any documents to be reviewed or discussed at such meeting shall accompany such notice.

(d) Written Consent in Lieu of Meeting. Except as otherwise expressly

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provided in the Act, a resolution in writing, executed by all of the members of the Board of Directors or of a committee thereof entitled to receive notice of a meeting of the Board of Directors or of such committee, shall be valid and shall have the same effect as if passed at a meeting, of the Board or of such committee, duly convened and held.



9.7 Stockholder Meetings:

(a) General and Extraordinary General Meetings: The time and place of

all general and extraordinary general meetings of the Company's stockholders shall be as provided for in the Articles.

(b) Notice Requirement: Written notice of an extraordinary general

meeting of the Company's stockholders stating the place, date and hour of the meeting shall be given to each stockholder entitled to vote at such meeting not less than twenty one (21), nor more than sixty (60), days before the date of the meeting. Any documents to be reviewed or discussed at such meeting shall accompany such notice.

(c) Quorum Requirement: A minimum of two stock/shareholders holding

in aggregate 50% of the Company's issued and paid-up share capital/stock and entitled to vote thereat, present in person, or represented by proxy, shall constitute a quorum at all meetings of the share/stockholders of the Company for the transaction of business, except as otherwise provided by a statute or the Articles. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

(d) Proxy Rights: A stockholder of the Company shall be entitled to

exercise its right to vote at general and extraordinary general meetings of stockholders by proxy, and the holder of any such proxy shall not be limited to a stockholder of the Company.

(e) Matters Reserved Exclusively for and Requiring Majority of

Stockholders: The following actions of the Company shall be decided solely by

the affirmative vote of the majority of the stockholders of the Company, and without any approval by the Board:

- (1) the sale by the Company of its shares of stock in a public offering;
- (2) the declaration by the Company of a dividend on its capital stock;

- (3) the acquisition by the Company of any interest in the legal or beneficial ownership of any other corporation or business association;
- (4) the formation of a subsidiary corporation by the Company;
- (5) adoption and amendment of the Articles;
- (6) adoption and amendment of the Memorandum;
- (7) issuance by the Company of any bonds or debentures;
- (8) borrowing money in an amount which, together with the aggregate balance of all outstanding borrowings, exceeds 300% of the paid-in capital of the Company;
- (9) voluntary winding up of the Company;
- (10) transfer of all or a substantial portion of the Company's business or assets; and

provided that, Subsections (1),(5),(6) and (9) herein above require the  
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affirmative vote of a 2/3rd majority of the stockholders of the Company.

9.8 Financial Statements: The Company shall maintain true and accurate  
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books of account and records in accordance with Indian generally accepted accounting principles consistently applied. The Company shall provide each of the Stockholders with (i) interim internal financial reports every one (1) month, consisting of an income statement, a balance sheet, and a cash flow statement, and (ii) an audited financial report (within ninety (90) days after the close of each Fiscal Year.

9.9 Access to Books/Records: Access to the books and records of account  
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of the Company shall be made available to the Stockholders or their authorized representatives at all reasonable times during normal business hours. Whenever reasonably so requested by a Stockholder, the Company shall make information regarding its business operations and financial condition available to such Stockholder.

ARTICLE 10  
SHARE TRANSFERS

10.1 Stock Transfers:  
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(a) Each of the Stockholders agrees not to sell, assign, pledge or in any manner transfer title or right to, or otherwise encumber, any of the Company shares held by it, without the prior approval of the Board. All stock certificates which the Company issues shall bear a legend as follows: "Any transfer of the shares of stock of the Company shall be subject to approval of the Board of Directors of the Company."

(b) If a Stockholder which desires to transfer its shares to a specified third party, other than an Affiliate of said Stockholder, has received the prior approval of the Board, said Stockholder (the "Transferor") may sell any or all of the Company shares owned by it to said third party which has made a bona fide offer to purchase any or all of the Company shares owned by it, provided that in such case the Transferor shall give prior written notice to the Company and first offer and give the other Stockholder an opportunity to purchase the shares on the same terms and conditions as offered by the specified third party. If all the shares offered as aforesaid are purchased by the other Stockholder, the necessary transfer shall be effected forthwith.

(c) When such offered shares are not all purchased and paid for in full by the other Stockholder within sixty (60) days of the initial offer by the Transferor to the other Stockholder, the Transferor shall have the right to either itself retain the remaining unsold shares or sell the remaining unsold shares to the aforesaid third party on the identical terms and conditions described in the prior written notice to the Company.

(d) Any notice made pursuant to subsection (b) of this Section 10 shall be made in writing and shall identify the proposed transferee to whom the Transferor desires to sell shares, and shall contain the specific terms and conditions of the offer.

(e) The options open to the Transferor pursuant to subsection (c) above shall be exercised within sixty (60) days of it having been ascertained that the shares are not to be purchased and paid for in full by the other Stockholder within said period of sixty (60) days, failing which the Transferor shall be deemed to have elected to retain all the shares originally offered.

(f) In any transfer of Company shares from a Stockholder, the transferee shall submit to the Company and the non-transferring Stockholder an agreement by such transferee to

take the place of the Transferor with respect to, and to be bound as a party to, this Agreement and to assume such of the rights and obligations of the Transferor hereunder as they relate to such transferee as the holder of the shares being transferred.

ARTICLE 11  
EFFECTIVE DATE, TERM, TERMINATION AND EXPIRATION

11.1 Effective Date: This Agreement shall come into effect upon this  
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Agreement getting the required approval from all the requisite Government agencies (the "Effective Date").

11.2 Term: This Agreement shall be valid and in force commencing on the  
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Effective Date, and will continue until expiration on eight (8) calendar years from the Effective Date, unless earlier terminated as provided in this Agreement, or extended by written agreement of the parties hereto. Notwithstanding the aforesaid, in the event the Licenses to the Company are further granted pursuant to the provisions of Section 5.1(a) hereof, the material provisions of this Agreement enabling the Company to effectively make use of the Licenses shall remain in full force and effect.

11.3 Termination of the Agreement:  
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This Agreement shall terminate upon the occurrence of any of the following events:

- (1) mutual written agreement of the Stockholders;
- (2) the sale or other disposition of all of the Company's assets and the receipt by the Stockholders in cash of the proceeds thereof;
- (3) the dissolution of the Company;
- (4) a trustee, receiver or liquidator is appointed for all or a substantial part of the assets or property of either Stockholder;
- (5) a voluntary petition in bankruptcy or a voluntary winding-up petition is filed with respect to either Stockholder, or an involuntary petition is filed and is not dismissed within ninety (90) days after filing;
- (6) the interests of either Stockholder are assigned for the benefit of creditors;
- (7) either Stockholder ceases the active conduct of its business;

- (8) either Stockholder dissolves or liquidates; or
- (9) either Stockholder is in material breach or default under this Agreement.

In the event of termination pursuant to the provisions of clauses (4), (5), (6), (7), (8), (9), (10) (a "Stockholder Termination"), the other Stockholder may, for thirty (30) days after the occurrence of the event referenced therein, purchase the shares of Company stock of the affected Stockholder at a price which shall be the higher of the book value or the fair market value of the shares as shall be determined by an independent valuer which shall be retained by mutual agreement of the Stockholders. In the event that ECIL purchases the Company's Stock pursuant hereto, any and all sums of money due to OSI thereby shall be paid to OSI in US dollars, net of Indian taxes. Any purchase of shares of Company stock by OSI shall be subject to and conditioned upon compliance with the legal requirements referred to in Section 3.3 hereof, and any payment to ECIL pursuant thereto shall be net of Indian taxes, if any.

11.4 Effect of Termination and Expiration:  
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(a) Termination or expiration of this Agreement shall not affect any obligations of either of the Stockholders hereunder which have accrued but are not discharged prior to such termination or expiration, nor affect the rights of either Stockholder to recover damages from the other Stockholder by reason of any breach of this Agreement which has accrued prior to or would by its nature accrue after such termination or expiration.

(b) Upon termination or expiration of this Agreement, and subject to Section 5.1(a) hereof, all of the Proprietary Technology which OSI caused RSPI to deliver or transmit to ECIL or the Company, including the Proprietary Technology more fully set forth on Schedule B hereto (the "Schedule B Technology"), shall be returned forthwith by ECIL and the Company to RSPI, or shall be destroyed under supervision of OSI. Immediately upon such termination or expiration, ECIL and the Company shall cease making use of such Proprietary Technology, except as otherwise provided for herein, in each of its (or any of its subcontractors') manufacturing or assembly operations.

(c) If the joint venture cannot be formed due to the acts of the Government of India or subsequent to the Company being formed, RSPI withdraws from this Agreement due to acts beyond its control, the joint venture goals shall be pursued by ECIL, and RSPI shall fulfill its obligations for the duration of the Agreement and shall abide by the non-competition clause set forth in Section 12.2 hereto. ECIL shall thereafter pay OSI a license fee on the sale of every x-ray system sold by ECIL or its

Affiliates which fee shall be US \$5000 per X-ray system if such system sells for between US \$60,000 - \$63,000; US \$4,500 per system if such system sells for between US \$55,000 - \$59,999; US \$4,000 per system if such system sells for between US \$50,000 - \$54,999. In the event the x-ray system sells for an amount in excess of US \$ 63,000, the license fee shall be an amount greater than US \$5,000 and shall be negotiated in good faith by ECIL and OSI. In addition, ECIL hereby agrees that it shall purchase a minimum of one hundred and fifty (150) multi-energy units, as more fully described in Schedule B hereto, from RSPI, over a period of five years from the date of termination or withdrawal hereof, for a sum of US \$21,000 per unit.

ARTICLE 12  
MISCELLANEOUS

12.1 Government Approvals: ECIL hereby agrees, from time to time as

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required by applicable Indian law, rule, regulation or administrative practice, to make any and all required notifications or filings with the Indian government and to expeditiously obtain all required Indian government and Reserve Bank of India approvals, permits or consents required for this agreement to be effective and so that the Company and the joint venture contemplated hereby shall be in full compliance with the laws of India.

12.2 No Competition: Except to the extent otherwise provided herein, the

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Stockholders shall not, other than through the Company, have any interest in the manufacturing, assembling, testing, marketing, selling or servicing of the Products, or in the operating of any business identical or substantially similar to the business of the Company (the "Business"), within the Territory as long as each shall remain a Stockholder of the Company, and for a period of five (5) years thereafter. In the event of a Stockholder Termination, the affected Stockholder shall not purchase, sell or operate any business similar to the Business in the Territory, for its own account or otherwise, or hold shares of stock in any other company engaged in the business of operating a Business in the Territory, whether or not such other company is an Affiliate of the said Stockholder, for a period of seven (7) years from the date thereof. The applicability of this Section 12.2 to each Stockholder shall survive the termination or expiration of this Agreement.

12.3 Non-Disclosure: ECIL and the Company each acknowledges that the

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Proprietary Technology of RSPI disclosed to it (as such, a "Recipient") pursuant to the terms hereof (the "Disclosed Proprietary Technology") is considered to be a valuable proprietary asset of RSPI and hereby agrees that disclosure to a Recipient by RSPI of any of the Disclosed Proprietary Technology, whether written, oral, or in machine-readable form, is made in strictest confidence. In addition:

(a) Each Recipient will ensure that the confidentiality and secrecy of the Disclosed Proprietary Technology is maintained. Each Recipient agrees to take all steps necessary to avoid any unauthorized disclosure, use, or publication of the Disclosed Proprietary Technology.

(b) Each Recipient may disclose the Disclosed Proprietary Technology to its own employees to whom it shall be reasonably necessary in order to further Recipient's business relationship with OSI as contemplated hereunder. Each Recipient agrees that it shall take appropriate action (by instructions, agreement, or otherwise) with such employees in order to satisfy Recipient's obligations under this Agreement with respect to use, copying, protection, and security of the Disclosed Proprietary Technology.

(c) Each Recipient agrees not to print or copy, in whole or in part, any documents or magnetic media containing any of the Disclosed Proprietary Technology without the prior written consent of OSI.

(d) Each Recipient agrees not to disclose any of the Disclosed Proprietary Technology to any entity outside of said Recipient without the prior written consent of OSI, and without first obtaining from each such entity an agreement substantially identical to the provisions of this Section 12.3 in form.

(e) Each Recipient agrees to use the Disclosed Proprietary Technology only in furtherance of its business relationship with OSI as contemplated hereunder.

(f) The Disclosed Proprietary Technology will not be used by ECIL or the Company to provoke an interference with any patent application which RSPI has filed with respect to the Disclosed Proprietary Technology, and will not be used to amend any claim in any pending patent application to expand the claim to read on, cover, or dominate any invention (whether or not patentable) disclosed in the Disclosed Proprietary Technology.

(g) Each Recipient agrees not to otherwise use or dispose of the Disclosed Proprietary Technology except with the prior written consent of OSI. OSI's consent may be withheld for any reason or no reason, and may be granted upon such terms as OSI may establish from time to time.

(h) The Disclosed Proprietary Technology shall remain the property of RSPI.

The provisions of this Section 12.3 are binding upon each Recipient and its directors, employees, agents and subcontractors as long as any part of the Disclosed Proprietary Technology disclosed or delivered to Recipient remains confidential, except

that said Recipient has no such obligation with respect to any Disclosed Proprietary Technology which (a) is already known to Recipient; (b) is or becomes publicly known through no wrongful act of Recipient; (c) is disclosed to Recipient by a third person not in violation of any obligation of non-disclosure owed to OSI or RSPI; or (d) is approved for release by written authorization of OSI. Each Recipient has the burden of proving the applicability of any of the above exceptions. OSI has the right to inspect Recipient's records to determine the source of any Disclosed Proprietary Technology claimed to be within any of the above exceptions.

12.4 Improvements and Developments: As part consideration for OSI's  
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causing RSPI to grant to ECIL and the Company the Licenses, any improvement to the Products or the Proprietary Technology made by ECIL or by the Company shall be the sole property of OSI. If any patents result from any such improvements, such patents shall be solely owned by OSI, and the Company shall be granted a no-cost transferable shop rights license for such patents for the life of the patents. ECIL and the Company agree to promptly disclose any and all such improvements (including inventions) to OSI, and to cooperate in securing and perfecting any protectable intellectual property rights to such improvements. Any inventions, developments, or patents relating to the Products and resulting from sole development by OSI, or by OSI in conjunction with other parties, shall be the sole property of OSI, and the Company shall be granted an option to include in the Licenses any such inventions, developments or patents.

12.5 Arbitration: Any and all disputes between the Stockholders arising  
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from or in connection with this Agreement shall be amicably and promptly negotiated upon consultation in good faith between the Stockholders. Each of the Stockholders agrees that, if an amicable settlement is not reached within thirty (30) days after commencing consultation, the dispute shall be settled exclusively by arbitration in accordance with the Rules of Conciliation and Arbitration of the International Chamber of Commerce conducted in the place where the principal office of the Stockholder not initiating the arbitration is located, and the arbitration award shall be final and binding upon the Stockholders for all purposes hereof and (may thereafter be enforced by any court having jurisdiction. The arbitration shall be conducted in the English language. Any arbitration award shall include attorneys' fees for the prevailing party.

12.6 Governing Law: The construction, validity and performance of this  
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Agreement shall be governed by the laws of India, provided, however, that the construction, validity and performance of Sections 3.3 and 12.5 hereof shall be governed by the laws of the State of California, U.S.A.



12.7 Counterparts: This Agreement may be executed in one or more

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counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.8 Assignment: Neither this Agreement nor any right or obligation

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provided for herein is assignable in whole or in part by any party hereto without the prior written consent of the other parties hereto.

12.9 Integration: This Agreement constitutes the entire understanding

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among the parties, and supersedes any previous understandings, written or oral, which the parties may have reached, with respect to the subject matter hereof.

12.10 Modification: No modification or amendment hereof shall be valid or

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binding upon the parties unless agreed to in writing by each of the parties hereto.

12.11 Force Majeure: No failure or omission by any party to carry out or

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observe any of the terms or conditions of this Agreement shall, except as herein expressly provided to the contrary, give rise to any claim against the party in question or be deemed a breach of this Agreement by such party if such failure or omission arises from any extraneous cause entirely beyond the control of that party.

12.12 Notices: All notices, requests, demands and other communications

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hereunder shall be in writing and shall be deemed to have been duly given if delivered or mailed by registered or certified mail to the addresses hereinafter set forth or at such other addresses as may be designated in writing by notice given hereunder to the other parties. The date of the giving of such notices, requests, demands, and other communications shall be deemed to be the date of the posting of the mail, if so mailed, or the date of delivery, if delivered other than by registered or certified mail.

TO OSI - M/S Opto-Sensors Inc.  
12525 Chadron Avenue  
Hawthorne, California 90250, USA.

TO ECIL - M/S Electronics Corporation of India Limited,  
ECIL P.O., Hyderabad-500 762 A.P., India.

TO THE COMPANY - M/S Ecil-Rapiscan Security Products  
[address to be determined]

12.13 Non-Waiver of Right: The failure of any party to enforce at any time

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any of the provisions hereof shall not be construed to be a waiver of any such provisions or a waiver of

the right of such party thereafter to enforce any such provisions. No waiver by a party of any right hereunder shall be deemed a waiver of any other right.

12.14 Severability: The provisions of this Agreement shall be deemed

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severable, and in the event that any term or provision of this Agreement shall be held invalid, illegal or unenforceable, the remainder of the terms and provisions of this Agreement shall not be affected by such invalidity, illegality or unenforceability, and this Agreement shall be interpreted and construed as if such term or provision had never been contained to the extent that the same shall have been held to be invalid, illegal or unenforceable.]

12.15 Headings: The headings of Sections used in this Agreement are

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inserted for convenience of reference only and shall not affect the interpretation of the respective Sections of this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf on the day and year set forth across its signature below.

OPTO-SENSORS, INC.

WITNESS:

By: /s/Deepak Chopra  
-----

1. Its: CEO Chairman  
-----

2. Name: Deepak Chopra  
-----

ELECTRONICS CORPORATION OF  
INDIA LIMITED

By: /s/  
-----

1. Its: \_\_\_\_\_  
2. Name: \_\_\_\_\_

SCHEDULE A

X-Ray System  
- - - - -

Rapiscan current Multi-Energy Security X-Ray Inspection System including:

1. All mechanical drawings of the Rap 2, Rap 17, Rap 14
2. X-Ray generator manufacturing drawings including mechanical, electrical, and schematics, test procedures.

(The Trent I Image Processor PCB and the A to D Converter PCB manufacturing drawings will be licensed after 12 months of the Effective Date. Maintenance documentation will be provided immediately).

SCHEDULE B

RAPISCAN2 MULTI-ENERGY MACHINE (90 MC X 80 CM)

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36	EACH	LARGE	DETECTORS
36	EACH	SMALL	DETECTORS
9	EACH	PCB DIODE ARRAY	
9	EACH	PCB DIODE ARRAY	
1	EACH	PROCESSOR PCB TRENT I	
1	EACH	X-RAY CONTROL PCB	
1	EACH	CONTROL PANEL	
2	EACH	PHOTOCELLS	
1	EACH	ENCODER	
1	EACH	X-RAY TUBE	
1	LOT	INDICATOR LIGHTS, SWITCHES, COMPONENTS, CABLES, MISCELLANEOUS PARTS	

TOTAL KIT PRICE (F O B) U.S. \$ 16,000

SCHEDULE C

MULTI ENERGY XBIS 9080 - ECIL'S SCOPE OF SUPPLY

1. Conveyor Frame and L.S Box
2. X-Ray Generator Housing and Collimator
3. Conveyor Belt
4. Conveyor Rollers
5. Control Desk
6. Lead Flaps
7. 14" Color Monitors
8. Drum Monitor
9. X-Ray Control PSU (Power Supply)
10. DC-DC Voltage Control PCB
11. IR Interface PCB
12. IR Supply PCB
13. Torroidal Transformer (Mains)
14. Miscellaneous hardware, final assembly, testing and packaging for delivery.

Transfer Price U.S. \$13000 (inclusive of customs duty, but exclusive of local  
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duties and taxes).

SCHEDULE A

RAPISCAN2 MULTI-ENERGY MACHINE [OR SIMILAR MODEL] (90 MC X 80 CM)

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36	EACH	LARGE	DETECTORS
36	EACH	SMALL	DETECTORS
9	EACH	PCB DIODE ARRAY	
9	EACH	PCB DIODE ARRAY	
1	EACH	PROCESSOR PCB TREAT I	
1	EACH	X-RAY CONTROL PCB	
1	EACH	CONTROL PANEL	
2	EACH	PHOTOCELLS	
1	EACH	ENCODER	
1	EACH	X-RAY TUBE	
1	LOT	INDICATOR LIGHTS, SWITCHES, COMPONENTS, CABLES, MISCELLANEOUS PARTS	

AGREEMENT

-----

THIS AGREEMENT is made and entered into this 3rd day of JANUARY, 1995, by and among OPTO SENSORS, INC. ("OSI"), a California corporation, DEEPAK CHOPRA ("Chopra") and AJAY MEHRA ("Mehra").

WHEREAS, OSI and Electronic Corporation of India Limited ("ECIL"), an Indian corporation, are parties to a joint venture regarding the manufacturing and selling of diode kits ("Joint Venture");

WHEREAS, pursuant to the agreement between OSI and ECIL for the Joint Venture, OSI and ECIL agreed to contribute total capital up to the amount of \$150,000.00 to be divided between OSI and ECIL on the basis of 51% and 49%, respectively;

WHEREAS, the profits, losses distributions of the Joint Venture are to be allocated 51% to OSI and 49% to ECIL;

WHEREAS, Chopra and Mehra have expressed an interest in participating as joint venturers in the Joint Venture; and

WHEREAS, it is deemed by OSI to be in the best interests of said corporation to assign to Chopra and Mehra a portion of OSI's interest in the Joint Venture.



NOW, THEREFORE, in consideration of the usual promises contained herein, the parties hereto agree as follows:

1. OSI hereby sells, assigns, transfers and conveys to Chopra and Mehra a 15% interest (10 1/2% to Chopra and 4 1/2% to Mehra) in the Joint Venture, the result of which will be that (i) OSI shall own 36% of the Joint Venture and shall be allocated 36% of the profits, losses and distributions, (ii) Chopra shall own 10 1/2% of the Joint Venture and shall be allocated 10 1/2% of the profits, losses and distributions and (iii) Mehra shall own 4 1/2% of the Joint Venture and shall be allocated 4 1/2% of the profits, losses and distributions.

2. Chopra and Mehra hereby accept the aforesaid assignment and, subject to the terms and conditions of this Agreement, agree to be bound by the terms and conditions relating to the Joint Venture. Any and all contributions of capital, as well as any other payments required to be made by OSI regarding its present 51% ownership interest in the Joint Venture, shall be allocated among OSI, Chopra and Mehra on a pari passu basis in the same proportion as their ownership percentages (36%, 10 1/2% and 4 1/2%, respectively) in the Joint Venture.

3. In the event that Chopra and/or Mehra are required or requested to give their consent to any action regarding the Joint Venture or to vote their Joint Venture interests, they will do so in accordance with the instructions given to them by OSI. In

other words, any and all voting and decision making rights of Chopra and/or Mehra regarding the Joint Venture shall be exercised in accordance with OSI's instructions and wishes.

4. This Agreement may not be amended or modified without the approval of the Board of Directors of OSI.

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

OPTO SENSORS, INC.

By: /s/ Deepak Chopra

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/s/ Deepak Chopra

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DEEPAK CHOPRA

/s/ Ajay Mehra

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AJAY MEHRA

AMENDMENT TO AGREEMENT

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THIS AMENDMENT TO AGREEMENT is made and entered into this 20th day of May, 1997, by and among OPTO SENSORS, INC. ("OSI"), a California corporation, DEEPAK CHOPRA ("Chopra") and AJAY MEHRA ("Mehra").

WHEREAS, on January 3, 1995, the parties hereto entered into a certain Agreement which provided for the sale by OSI to Chopra and Mehra of a 15% interest in a certain joint venture between OSI and Electronics Corporation of India, Limited ("Assignment Agreement"); and

WHEREAS, the parties hereto now wish to amend the Assignment Agreement.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Paragraph 3 of the Assignment Agreement is hereby deleted in its entirety.

2. All of the other terms and conditions of the Assignment Agreement, except as specifically amended by Paragraph 1 above, shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereby have executed this Amendment to Agreement the day and year first above written.

OPTO SENSORS, INC.

By: /s/ Deepak Chopra

\_\_\_\_\_  
Deepak Chopra, President

/s/ Deepak Chopra

-----  
DEEPAK CHOPRA

/s/ Ajay Mehra

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AJAY MEHRA

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. 1 to Registration Statement No. 333-29179 of OSI Systems, Inc. of our report dated June 12, 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.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

July 31, 1997

CRIMINAL PLEA AND SENTENCING AGREEMENT

UNITED STATES v. UDT SENSORS. INC.  
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I

INTRODUCTION  
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This constitutes the criminal plea and sentencing agreement ("Agreement") between UDT Sensors, Inc. ("UDT") and the United States Attorney's Office for the Central District of California ("this Office"). This Agreement is entered into pursuant to Rule 11(e)(1)(C) of the Federal Rules of Criminal Procedure.

This Agreement contemplates the resolution of all criminal charges against UDT with regard to allegations of false testing within the scope of the Information attached hereto as Exhibit 1 ("the Information").

This Office is the sole governmental entity entering into this Agreement, and this Agreement does not bind any other federal, state or local prosecuting, administrative or regulatory authorities.

II

OFFENSES AND PENALTIES  
-----

The Information charges UDT with three counts of making false statements regarding matters within the jurisdiction of the United States Department of Defense, in violation of 18 U.S.C. (S) 1001. The maximum sentence that may be imposed is a fine of \$500,000 per count. 18 U.S.C. (S) 3571(c)(3).

The court may also order restitution under 18 U.S.C. (S) 3663(a)(1), and may impose a term of probation for up to five years under 18 U.S.C. (S) 3561(b)(1). In addition, the court is

required by statute to impose a special assessment of \$200 per count. 18 U.S.C. (S) 3013(a)(2)(B).

III

PLEA

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This Office and UDT hereby agree, pursuant to Federal Rule of Criminal procedure 11(e)(1)(C), that the disposition of this matter shall include the following terms and conditions:

A. UDT agrees to waive indictment by grand jury and to plead guilty to the Information that charges UDT with three counts of violating 18 U.S.C. (S) 1001.

B. To be guilty of violating 18 U.S.C. (S) 1001, UDT must have made a material false statement within the jurisdiction of a department or agency of the United States, knowing that the statement was untrue. By signing this Agreement, UDT admits that it is guilty of the offenses charged in the Information and stipulates to the Statement of Facts set forth herein.

C. UDT agrees to waive the requirement for a presentence investigation and report, as set forth in Rule 32 of the Federal Rules of Criminal Procedure, and asks to be sentenced on the same date as the entry of its guilty plea to the offenses charged in the Information. If, however, the sentencing takes place on a day other than the day of the plea, that will not provide a basis for UDT to withdraw its guilty plea.

D. UDT agrees to pay a criminal fine of \$250,000 for each count of the Information, for a total of \$750,000. In addition, as to Count Three, UDT agrees that it shall be placed on

probation for a period of five years. The sole conditions of probation shall be: (1) that UDT abide by all federal, state, and local laws during the period of probation, and (2) that UDT pay the \$750,000 fine pursuant to the five-payment installment schedule set forth below:

Installment -----	Amount -----	Due Date for Payment -----
1	\$100,000	March 31, 1995
2	\$150,000	March 31, 1996
3	\$150,000	March 31, 1997
4	\$150,000	March 31, 1998
5	\$200,000	March 31, 1999

E. UDT agrees that the five-year term of probation on Count Three shall commence to run upon UDT's first installment payment due March 31, 1995.

F. The installment schedule set forth in paragraph D for the payment of UDT's criminal fine may only be adjusted with the consent of the government and must be approved by the court. In the event that UDT is financially unable to make a payment, it may request the opportunity to renegotiate the terms of the payment schedule. In no event shall any payments due by UDT be extended beyond the five-year period of probation. Nor shall the total principal amount of the fine be reduced to less than \$750,000. UDT may prepay the criminal fine, including all interest due up to and including the date of prepayment, without penalty.

G. UDT agrees to pay interest in addition to its \$750,000 principal fine amount. The interest payments shall be due on the date of each principal installment, as set forth in paragraph D. The rate of interest shall be equal to the six-month U.S. Treasury Bill rate computed as of fifteen days prior to the due date of each installment. Interest on the \$750,000 principal fine amount shall commence running as of the date of sentencing.

H. UDT also agrees to pay to the Clerk of the Court for the United States District Court for the Central District of California on the date of sentencing the mandatory assessment of \$600 (\$200 per count of the Information).

I. Restitution shall not be ordered as part of the criminal sentence. The issue of restitution is addressed in the civil Settlement Agreement attached hereto as Exhibit 2. This Office and UDT expressly acknowledge that this Plea Agreement is conditioned upon the district court's approval of this related civil settlement.

J. In exchange for UDT's guilty pleas and other commitments pursuant to this Agreement, this Office agrees not to prosecute UDT for any other criminal violations involving parts UDT manufactured and tested for U.S. military application as of the date that this agreement is executed.

K. This Agreement does not prevent the government from prosecuting any individual for any offense, including the offenses charged in the Information.



L. UDT knowingly and intelligently waives any rights it may have to any direct appeal or collateral attack of the sentence agreed to herein.

M. Until the entry of UDT's guilty plea pursuant to the terms of this Agreement, or the expiration of one year from the date this Agreement is signed, whichever occurs first, UDT agrees to waive any defense based on the statute of limitations with respect to the criminal charges set forth in the Information or related to activities described in paragraph J.

IV

STATEMENT OF FACTS  
-----

The parties agree to the statement of facts attached hereto as Exhibit 3. This statement of facts does not preclude this Office or UDT from stating any further facts, not inconsistent with those in the attached statement, deemed necessary by either party or the court to establish a factual basis for the guilty pleas, or necessary to respond to questions by the court.

V

JOINT AND SEVERAL LIABILITY  
-----

As part of this Agreement, the President of UDT, Deepak Chopra, agrees personally to guarantee UDT's payment of the criminal fine as described herein. Accordingly, UDT and Mr. Chopra are jointly and severally liable for the payment of fines plus interest pursuant to the schedule set forth in Section III. This provision is intended solely to insure payment of the fine,

and does not mean or imply that Mr. Chopra directed, approved of, or had knowledge of the unlawful acts alleged in the Information.

VI

BREACH OF THE AGREEMENT

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UDT understands that this Office has entered into this Agreement strictly relying on UDT's faithful performance of every material term and condition herein. If it is determined that UDT has violated the provisions of this Agreement by failing to make a required installment payment, the following consequences will result:

A. This Office will no longer be bound in any respect by this Agreement, and shall be entirely released from its commitments, representations and obligations to UDT set forth herein, and UDT may be subject to prosecution for any federal criminal violation to which a guilty plea has not been entered into pursuant to Section III above. UDT agrees that such prosecution will be at the discretion of this Office, and shall not be barred by any applicable statute of limitations.

B. Alternatively, at the discretion of this Office, if UDT fails to make a timely installment payment plus interest pursuant to the schedule set forth in Section III above, the United States may, by written notice to UDT, declare any remaining balance and interest due and payable as of the tenth business day following UDT's receipt of such written notice. In the event UDT refuses or is unable to pay any balance and interest due, Mr. Chopra agrees to pay the entire remaining balance and interest within

ten business days thereafter. In such event, however, the court will not impose an additional monetary fine on UDT. The total fine to be imposed on UDT with respect to Counts One through Three will be \$750,000.

If the government elects to proceed under paragraph "VI.B", it will forego its right to proceed under paragraph "VI.A".

VII

SUSPENSION AND DEBARMENT  
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By this Agreement this Office makes no representation or promise concerning suspension or debarment of UDT from contracting with the United States government or with any office, agency, or department thereof. Suspension and debarment are administrative actions solely within the authority of other government offices, agencies, and departments. This Agreement is not conditioned upon, and shall not be effected by, any suspension or debarment decision concerning UDT that may be made by any office, agency or department of the United States following UDT's entry of guilty pleas herein.

The government agrees to make known to the Department of Defense the extent of UDT's cooperation and remedial efforts.

VIII

WAIVER OF CONSTITUTIONAL RIGHTS  
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UDT understands that by pleading guilty to the attached Information, it will be giving up the following constitutional rights:

UDT waives its right to indictment by a grand jury. UDT also waives the right to plead not guilty to the charges and the right to be tried by a jury, or if UDT wished and with the consent of the government, to be tried by a judge. At that trial, UDT would have the right to an attorney. During the trial, UDT would be presumed innocent and a jury would be instructed that the burden of proof is on the government to prove UDT guilty beyond a reasonable doubt. UDT would have the right to confront and cross-examine witnesses against it. If UDT wished, it could call witnesses on its behalf and subpoena those witnesses to testify. If UDT were found guilty after a trial, it would have the right to appeal that verdict to see if any errors had been committed during trial that would require either a new trial or a dismissal of the charges. By pleading guilty, UDT will be giving up all of these rights.

IX

NO ADDITIONAL AGREEMENTS

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Except as expressly set forth herein and in the attached civil Settlement Agreement, there are no additional promises, understandings or agreements, express or implied, between this Office and UDT, or their respective counsel, concerning this case or any other pending or future federal, state, or local criminal prosecution, civil litigation or administrative proceeding relating to any other federal, state or local charges that may now be pending or hereafter be brought against UDT or any of its parent divisions, subsidiaries, or affiliates. Nor may any

additional agreement, understanding or condition be entered into unless in writing and signed by all parties.

X

LIENS AND CLAIMS  
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All matters relating to obtaining a lien on UDT's property, and enforcing or subordinating such lien or claim, shall be handled by the United States in a manner consistent with the Stipulation for Consent Judgment, which is part of the attached civil settlement agreement.

Dated: October 21, 1994

NORA M. MANELLA  
United States Attorney

/s/ Bryan D. Daly  
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BRYAN D. DALY

/s/ Robert T. Scott  
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ROBERT T. SCOTT  
Assistant United States Attorneys  
Public Corruption and Government  
Fraud Section

Attorneys for Plaintiff  
UNITED STATES OF AMERICA

On behalf of UDT, I have read this Agreement and have carefully reviewed every part of it with counsel for UDT. I understand it, and, on behalf of UDT, I knowingly agree to it. Further, I have consulted with counsel for UDT and fully understand UDT's rights under the law. No promises or inducements have been made to UDT other than those contained in this Agreement. In addition, no one has threatened or forced UDT in any way to enter into this Agreement. Finally, I am satisfied with the representation of counsel for UDT in this matter.  
Dated: October 6, 1994

UDT SENSORS, INC.

/s/ Deepak Chopra

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DEEPAK CHOPRA  
PRESIDENT

As counsel for UDT, I have carefully reviewed every part of this Agreement with my client. To my knowledge, UDT's decision to enter into this Agreement is an informed and voluntary one.  
Dated: October 6, 1994

RICHMAN, LAWRENCE, MANN,  
GREBNZ, ARBITER & CHIZEVER  
/s/ Roel C. Campos

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ROEL C. CAMPOS

Counsel for Defendant  
UDT SENSORS, INC.

STATEMENT OF FACTS  
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A. Introduction  
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At all times pertinent to the charges in the Information, UDT Sensors, Inc. ("UDT") was a corporation located at 12525 Chadron Avenue, Hawthorne, California. UDT was formed in May 1987 and currently has approximately 300 employees.

UDT manufactures photosensors under contracts with both military and commercial buyers. Among the photosensors manufactured by UDT are high-reliability ("hi-rel") sensors that are sold primarily to military customers, including the U.S. Army for application in laser detector sets on various aircraft and attack helicopters, and the U.S. Navy for application in arc fault detector sets on submarines.

The military hi-rel purchase orders awarded to UDT specified various quality assurance tests that were required to be performed to assure the reliability of the hi-rel photosensors for critical military applications. Those tests included various electrical and optical tests designed to measure the operational effectiveness of each sensor. The results of the tests were recorded on computer data sheets that were furnished to hi-rel customers with each shipment of sensors, along with certificates of conformance, which certified that the sensors had been manufactured and quality tested in accordance with applicable military specifications.

B. Creation of False Test Data  
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Beginning on or about May 1991, UDT testing personnel began using a random number generator ("RNG") program to create false computer test data for hi-rel photosensors. Specifically, by using this RNG program, UDT testers would create false computer test data with specific measurements without testing the sensors as required by the applicable military specifications. From on or about May 1991 to approximately April 1994, UDT testers, at the direction of UDT's hi-rel test supervisor and former project engineer, skipped various required electrical and/or optical tests and used the RNG to create false computer test data on approximately \$6,900,878 in shipments of various types of hi-rel sensors, as described below:

Date -----	Part Identification No. -----	Sales -----
1. Powertronics -----		
7/1/92 to 6/30/93	1304-1	\$2,144,274
7/1/93 to 3/26/94	1304-1	\$1,519,995
2. Hughes Danbury -----		
7/1/92 to 6/30/93	8060	\$28,364





7/1/93 to 3/26/94	8060	\$313,040
7/1/92 to 6/30/93	6523-2	\$32,472
7/1/93 to 3/26/94	6523-2	\$102,762
7/1/92 to 6/30/93	6523-1	\$680,720
7/1/93 to 3/26/94	6523-1	\$423,720
3. General Dynamics		
-----		
7/1/91 to 6/30/93	1304-1	\$546,937
7/1/93 to 3/26/94	1304-1	\$211,464
4. Litton Guidance		
-----		
7/1/91 to 6/30/92	4819-3	\$229,725
7/1/92 to 6/30/93	4819-3	\$64,845
7/1/93 to 3/26/94	4819-3	\$137,955
7/1/93 to 3/26/94	8640-3	\$26,724
7/1/93 to 3/26/94	6834-1	\$14,019
5. Honeywell Avionic		
-----		
7/1/91 to 6/30/92	4959-4	\$43,475
7/1/92 to 6/30/93	4959-4	\$23,429
7/1/93 to 3/26/94	4959-4	\$59,875
7/1/91 to 6/30/92	4959-3	\$23,985
7/1/92 to 6/30/93	4959-3	\$27,730
7/1/93 to 3/26/94	4959-3	\$44,680
7/1/92 to 6/30/93	7032-1	\$18,620
7/1/93 to 3/26/94	7032-1	\$7,000
7/1/92 to 6/30/93	7032-2	\$14,504
7/1/93 to 3/26/94	7032-2	\$14,000
6. Allied-Signal/Bendix		
-----		
7/1/90 to 4/23/94	8705-2	\$62,708
7/1/93 to 4/23/94	8705-2	\$63,205
7. Ametek		
-----		
7/1/93 to 4/23/94	8505-1	\$20,650

By deducting an estimated value of approximately 10% from the purchase price for the above photosensors for skipped quality testing, the loss to the government from UDT's failure to conduct

this testing is estimated at approximately \$690,087. This loss figure does not include damages relating to untested defective diodes which may have been shipped to the hi-rel customers, or consequential damages that may be attributed to UDT's failure to perform the required testing.

C. The Hughes Shipments (Count One and Two)  
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On or about March 14, 1990, the U.S. Army awarded contract DAAB07-90-C-S001 to Hughes Danbury Optical Systems ("HDOS") for the production of AN/AVR-2 laser detecting sets ("LDS"). The LDS's are used on aircraft and attack helicopters to detect optical signals received from enemy targeting systems and to provide warnings of laser threats to the aircrew, thereby allowing time for possible evasive maneuvers away from those threats. The contract called for HDOS to produce and deliver 99 LDS's to the Army for a firm fixed price of \$38,412,099.

On or about August 20, 1992, HDOS awarded purchase order no. 92205 to UDT for the production and delivery of 2,030 photosensors, a component of the LDS. The purchase order was in the amount of \$869,256. The purchase order incorporated military specifications that required UDT to perform certain optical tests (rise time, responsivity, cross-talk and uniformity) on a 100% basis. It also required UDT to certify that the photosensors were manufactured and quality tested in accordance with applicable military specifications.

Count One: On or about July 21, 1993, UDT shipped 84 photosensors to  
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HDOS under purchase order no. 92205, along with a certificate of conformance certifying that the photosensors had been manufactured and quality tested in accordance with applicable military specifications. In truth and in fact, as UDT well knew, this certification was false in that the required 100% optical tests had not been performed. UDT's tester skipped these required tests entirely and knowingly used the RNG program to create false test data. UDT's false certification was within the jurisdiction of the U.S. Department of Defense.

Count Two: On or about November 17, 1993, UDT shipped 98 photosensors to  
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HDOS under purchase order no. 92205, along with a certificate of conformance certifying that the photosensors had been manufactured and quality tested in accordance with applicable military specifications. In truth and in fact, as UDT well knew, this certification was false in that the required 100% optical testing had not been performed. UDT's tester skipped the required tests and knowingly used the RNG program to create false computer test data. UDT's false certification was within the jurisdiction of the U.S. Department of Defense.

D. The Powertronics Shipment (Count Three)  
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On or about April 24, 1991, the U.S. Navy awarded contract N0024-91-C-4017 to Powertronics Systems, Incorporation ("Powertronics") for the production of arc-fault detector systems ("AFD systems"). The AFD systems are used on submarines to detect electrical switchboard arc faults and to automatically open selected circuit breakers to extinguish the arc, thereby preventing fires in the submarine power rooms. The contract called for Powertronics to produce and deliver 43 AFD systems to the Navy for a firm fixed price of \$22,872,950.

On or about October 5, 1992, Powertronics awarded purchase order no. 3599R to UDT for the production and delivery of 102 photosensor assemblies, a component of the AFD system. The purchase order was in the amount of \$167,076. The purchase order incorporated military specifications that required UDT to perform a series of pre- and post-burn-in electrical and optical tests (dark current, shunt resistance, series resistance, responsivity, and LED/detector output) on a 100% basis. It also required UDT to certify that the photosensor assemblies were manufactured and quality tested in accordance with the military specifications.

Count Three: On or about November 23, 1993, UDT shipped photosensor

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assemblies to Powertronics under purchase order no. 3599R, along with a certificate of conformance certifying that the photosensor assemblies had been manufactured and quality tested in accordance with applicable military specifications. In truth and in fact, as UDT well knew, this certification was false in that certain of the required 100% electrical and optical tests had not been performed or had been performed on a sample basis only. UDT's tester skipped the required tests and knowingly used the RNG program to create false computer test data. UDT's false certification was within the jurisdiction of the U.S. Department of Defense.

E. UDT's Remedial Efforts

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Upon learning of the facts underlying the government's investigation, UDT immediately terminated the employment of the employees who had admittedly participated in the falsification of the hi-rel test data. UDT also timely notified its hi-rel customers about this falsification and the programs impacted. UDT also voluntarily undertook a retesting effort for all programs affected by the false testing. UDT estimates that this retesting effort will cost the company approximately \$550,000. Finally, UDT has agreed to provide the U.S. Navy a complete shipset of photosensor assemblies (valued at approximately \$250,000) to replace any that may have to be replaced in the fleet in the future.

GUARANTEE

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Due to the close business and financial relationships between UDT Sensors, Inc., ("UDT") and the undersigned ("Guarantor"), in consideration of the benefits which will accrue to Guarantor and as an inducement for and in consideration of the agreement by the United States to enter into the Plea Agreement and Stipulated Consent Judgement, Guarantor hereby agrees as follows:

1. Guarantee.

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(a) Guarantor absolutely and unconditionally guarantees and agrees to be liable for the full and indefeasible payment and performance when due of the following (all of which are collectively referred to herein as the "Guaranteed Obligations"): (i) all obligations, liabilities and indebtedness of any kind, nature and description of UDT to the United States, including principal, interest, charges, fees, costs and expenses arising under the Plea Agreement and Consent Judgment, whether as principal, surety, endorser, guarantor or otherwise, (ii) all expenses (including, without limitation, attorneys' fees and legal expenses) incurred in connection with the preparation, execution, delivery, recording, administration, collection, liquidation, enforcement and defense of UDT's obligations.

(b) This Guarantee is a guaranty of payment and not of collection. Guarantor agrees that the United States need not attempt to collect any Guaranteed Obligations from UDT, Guarantor or any other Obligor or to realize upon any collateral, but may require Guarantor to make immediate payment of all of the Guaranteed Obligations when due, whether by maturity, acceleration or otherwise, or at any time thereafter.

(c) Payment by Guarantor shall be made from time to time on demand as Guaranteed Obligations become due. Guarantor shall make all payments on the Guaranteed Obligations free and clear of, and without deduction or withholding for or on account of, any setoff, counterclaim, defense, duties, taxes, levies, imposts, fees, deductions, withholding, restrictions or conditions of any kind. One or more successive or concurrent actions may be brought hereon against Guarantor either in the same action in which UDT is sued or in separate actions. In the event any claim or action, or action on any judgment, based on this Guarantee is brought against Guarantor, Guarantor agrees not to deduct, setoff, or seek any counterclaim for or recoup any amounts which are or may be owed by the United States to Guarantor.

2. Waivers and Consents.

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(a) Notice of acceptance of this Guarantee, the making of loans and advances and providing other financial

accommodations to UDT and presentment, demand, protest, notice of protest, notice of nonpayment or default and all other notices to which UDT or Guarantor is entitled are hereby waived by Guarantor. Guarantor also waives notice of and hereby consents to, (i) any amendment, modification, supplement, extension, renewal, or restatement of the Plea Agreement and Stipulated Consent Judgment, including, without limitation, extensions of time of payment of or increase or decrease in the amount of any of the Guaranteed Obligations or any collateral, and the guarantee made herein shall apply to the Plea Agreement and Stipulated Consent Judgment and the Guaranteed Obligations as so amended, modified, supplemented, renewed, restated or extended, increased or decreased, (ii) the taking, exchange, surrender and relating of collateral or guarantees now or at any time held by or available to the United States for the obligations of UDT. Guarantor agrees that the amount of the Guaranteed Obligations shall not be diminished and the liability of Guarantor hereunder shall not be otherwise impaired or affected by any of the foregoing.

(b) No invalidity, irregularity or unenforceability of all or any part of the Guaranteed Obligations shall affect, impair or be a defense to this Guarantee, nor shall any other circumstance which might otherwise constitute a defense available to or legal or equitable discharge of UDT in respect of any of the Guaranteed Obligations, or Guarantor in respect of this Guarantee, affect, impair or be a defense to this Guarantee. Without limitation of the foregoing, the liability of Guarantor hereunder shall not be discharged or impaired in any respect by reason of any failure by the United States to perfect or continue perfection of any lien or security interest in any collateral or any delay in perfecting any such lien or security interest.

3. Subordination. Payment of all amounts now or hereafter owed to

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Guarantor by UDT (except for salary, bonus and other cash compensation not to exceed a total of \$275,000 annually and all non-cash benefits) is hereby subordinated in right of payment to the indefeasible payment in full to the United States of the Guaranteed obligations and all such amounts and any security and guarantees therefor and hereby assigned to the United States as security for the Guaranteed Obligations. Notwithstanding the foregoing, prior to a default by UDT, payments of amounts now or hereafter owed to Guarantor by UDT may be made as and when such amounts become due and payable.

4. Reinstatement. If after receipt of any payment of, or proceeds of

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collateral applied to the payment of, any of the Guaranteed Obligations, the United States is required to surrender or return such payment or proceeds to any Person for any reason, then the Guaranteed Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Guarantee shall continue in full force and

effect as if such payment or proceeds had not been received by United States.

5. Amendments and Waivers. Neither this Guarantee nor any provision

hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement. The United States shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers and/or remedies unless such waiver shall in writing and signed by an authorized employer of the United States.

6. GUARANTOR HEREBY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS GUARANTEE WHETHER IN CONTRACT, TORT, EQUITY OR OTHERWISE.

7. The United States shall not have any liability to Guarantor (whether in tort, contract, equity or otherwise) for losses suffered by Guarantor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Guarantee, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, the United States shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Guarantee.

8. Partial Invalidity. If any provision of this Guarantee is held to be

invalid or unenforceable, such invalidity or unenforceability shall not invalidate this Guarantee as a whole, but this Guarantee shall be construed as though it did not contain the particular provision held to be invalid or unenforceable and the rights and obligations of the parties shall be construed and enforced only to such extent as shall be permitted by applicable law.

9. Entire Agreement. This Guarantee represents the entire agreement and

understanding of this parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

10. Successors and Assigns. This Guarantee shall be binding upon Guarantor

and his or her heirs, executors, administrators, successors and assigns and shall inure to the benefit of the United States.

11. Construction. All references to the term "Guarantor" wherever used

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herein shall mean Guarantor and his or her heirs, executors, administrators, successors and assigns (including, without limitation, any receiver, trustee or custodian for Guarantor or any of his or her assets-or Guarantor in his or her capacity as debtor or debtor-in-possession under the United States Bankruptcy Code).

IN WITNESS WHEREOF, Guarantor has executed and delivered this Guarantee as of the day and year first above written.

WITNESS:

/s/ Deepak Chopra

\_\_\_\_\_

/s/

\_\_\_\_\_

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

STATE OF CALIFORNIA            )  
                                      )    ss.  
COUNTY OF                        )

On this 26th day of October, 1994 before me, a Notary Public in and for said County and State, personally appeared Deepak Chopra, personally known to me (or proved to me on the basis of satisfactory evidence) to be the individual whose name is subscribed to this instrument, and acknowledged that he executed it.

Witness my official seal.

[SEAL APPEARS HERE]

/s/ Peggy L. Bennett    10-26-94

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Notary Public in and for said  
County and State



AGREEMENT BETWEEN UDT SENSORS, INC.  
AND THE DEPARTMENT OF THE NAVY

1. This Agreement is entered into between the Department of the Navy, on behalf of the Department of Defense, and UDT SENSORS, INC. ("UDT" or "Company"). The sole purpose of this agreement is to evince that UDT is presently responsible to contract with the Federal Government by insuring that UDT has and will continue a program of acceptable contracting practices and procedures, and by establishing and implementing a program of compliance review, audits, and reports. For purpose of this agreement, UDT shall mean UDT as a body corporate, its predecessors, successors, affiliates, subsidiaries, and/or divisions and all directors, officers, employees and/or consultants of any of the aforesaid entities.

2. This agreement is based upon the resolution by UDT and the Department of Justice of the criminal investigation pursuant to the criminal and civil settlements reached by UDT with the United States Attorney's Office, Central District of California on or about October 24, 1994, as reflected in the Information and Plea Agreement and Stipulation for Consent Judgement and Consent Judgement, attached as Annex I. This agreement shall not be used for any purpose related to UDT's defense against or in mitigation or appeal of any criminal, civil or administrative charge, claim, or action related to or arising out of any criminal or civil investigation conducted by any component of the Department of Justice or the Department of Defense.

3. By this agreement, UDT recognizes its corporate responsibility to ensure that UDT fully complies with all Federal procurement laws and regulations when contracting, directly or indirectly, with the United States Government. In this regard, all aspects of UDT's corporate and business operations shall be conducted according to the highest code of corporate ethics, generally prevailing lawful and honest behavior, and the guidelines set by the letter and the spirit of this agreement.

4. To fulfill its corporate responsibilities, UDT has implemented a program which establishes compliant contracting procedures and practices for UDT and by which UDT will monitor adherence to these procedures and practices. This program includes four major components:

A. CODE OF ETHICS: UDT has established a written Code of Ethics which provides notice to all employees that the highest standard of business ethics is mandated.

(1) The written Code of Ethics is maintained, reviewed on an annual basis by its duly appointed legal counsel,

and updated as required for compliance with statutory and/or regulatory changes.

B. All UDT directors, officers, employees, and consultants are required to sign a certificate stating that they have read the Code of Ethics and understand its provisions.

(1) An Ethics Committee and its Chairman, the Director of Quality Assurance, reports and is responsible directly to the directors of UDT, and has been appointed to assist UDT employees in recognizing and reporting violations of the Code of Ethics or Standards of Conduct.

(i) The Chairman of the Ethics Committee and the Ethics Committee members shall investigate all instances of suspected misconduct and shall report the findings to the Board of Directors, which shall thereafter provide for management response.

(ii) For the term of this agreement, the Ethics Committee and its Chairman, the Director of Quality Assurance, shall, within 10 working days after the end of each fiscal quarter, prepare and deliver to Counsel, Procurement Integrity Office, Department of the Navy a synopsis of each instance of suspected and/or confirmed misconduct which became known to the Ethics Committee during the fiscal quarter. This synopsis shall be made without regard to the degree to which the Ethics Committee has been able, as of the due date of the report, to investigate the misconduct. This synopsis shall include disclosure of any remedial action taken to date.

(2) A telephone "hot line" to the Ethics Committee has been established at UDT to facilitate employee reports of suspected misconduct.

C. WRITTEN CONTRACTING PROCEDURES: A manual containing the regulatory standards and acceptable practices for doing business with the Government and/or Government prime contractors has been developed for UDT. These practices and procedures shall be applied to all business dealings involving Government contracts or subcontracts.

D. AUDIT AND COMPLIANCE REVIEW: The Chairman of the UDT Ethics Committee shall have the responsibility of directing and monitoring all audit and compliance review to ensure that all ethical standards are being met and that UDT's compliance program is being implemented. The duties in this regard of the Chairman of the Ethics Committee shall include the following:

(1) Have final decision making authority with respect to matters over which the Committee does not achieve a consensus, subject to the review of the Board of Directors.

(2) Review and approve all policies relating to quality, testing and inspection as well as meet with supervisory

personnel who work in quality assurance, inspection and testing, to determine that they are fully trained in these areas.

(3) Have final decision making authority with respect to quality, inspection and testing, subject to the review of the Board of Directors.

(4) Review, with UDT's President, no less than four times yearly, testing and inspection audits which shall be conducted by the Quality Assurance Manager, including the compliance program audits which will be conducted two times per year.

(5) Conduct with UDT's President no less than two testing and inspection audits per year.

(6) Report both testing and inspection audit results to the Ethics Committee and recommend any corrective action which the Ethics Committee Chairman deems appropriate, with a full report directed to the Board of Directors.

(7) Meet no less than twelve times per year with quality control supervisors and other employees who work in the areas of quality, testing and inspection to discuss and evaluate conformance with the procedures which have been approved and adopted pursuant to this Agreement. Such meetings shall be documented in writing.

(8) Convene special meetings of the Ethics Committee if it is determined that one or more matters pertaining to any aspect of this Agreement require the immediate attention of the Committee.

(9) Cause a report to be issued immediately to the Navy should the Ethics Committee Chairman become unable to carry out the foregoing responsibilities or if he is or will be replaced. This report should contain the UDT's proposal for another qualified officer to carry out the foregoing duties.

E. TRAINING: A comprehensive, recurring-type training program has been established for UDT directors, officers, employees, and consultants regarding the Code of Ethics and acceptable contracting practices.

The schedule for completed and planned compliance actions for this program will be as previously submitted and approved by the Navy.

5. UDT further agrees to:

A. Complete any planned compliance actions as scheduled and coordinated and approved by the Navy.

B. Within ten (10) working days after the end of each fiscal quarter, prepare and provide a report to the Navy Debarring and Suspending Official, or his designee, describing UDT's implementation of this agreement.

C. Within ten (10) working days after the end of each fiscal quarter, UDT shall report the status of: (1) All instances of disciplinary action for violations of the Standards of Conduct; (2) all known, ongoing criminal investigations; (3) all known qui tam suits; (4) all known or suspected defective pricing cases; (5) all hotline calls received by the Ethics Advisor (including a description of the complaint and any remedial action taken or planned); and (6) any other matter which might affect UDT's present responsibility status, including but not limited to actual or potential suspension and/or debarment actions by other Government and quasi-governmental agencies.

D. Allow designated representatives of the Department of Defense to interview UDT personnel and to examine UDT's financial books, records, and other company documents for the purpose of evaluating UDT's compliance with the terms of this agreement; such materials described above shall be made available by UDT after reasonable notice for inspection, audit and/or reproduction, provided, however, the Department of Defense shall not be entitled to examine documents properly subject to the attorney-client or attorney work product privileges, not to copy: (1) Documents containing technical data or computer software, except in accordance with government contract data rights provisions, or (2) Documents containing trade secrets.

E. Disclose to the Department of Defense and to the prime Government customer if such customer is not a DOD component, all instances in which there are reasonable grounds to believe that UDT, its directors, officers, employees, consultants, suppliers and/or Government personnel have violated Federal laws or regulations relating to U.S. Government procurements. Further, UDT shall take immediate corrective measures to remedy the matter disclosed, and to notify the Department of Defense, and the prime Government customer, if the matter relates to a non-DOD contract, of the corrective action taken and UDT's opinion regarding any impact the matter may have on the Government.

F. Cooperate fully with any investigation by the Department of Justice or the Department of Defense of which UDT knows or learns in the future.

G. Upon conviction of UDT for violation of any Federal criminal statute, take appropriate disciplinary action against all responsible individuals.

H. Upon indictment of, or the entering a guilty plea or plea of nolo contendere by any director, officer, employee or consultant of UDT for violation of an Federal criminal statute, which violation occurred in connection with the individual's

performance of duties for or on behalf of UDT, immediately remove the director, officers, employee or consultant from active status with the Company relating to any dealings with the U.S. Government.

I. Upon unappealed conviction of, or after an unsuccessful appeal by any director, officer, employee or consultant of UDT for violation of any Federal criminal statute, which violation occurred in connection with the individual's performance of duties for or on behalf of UDT, take prompt action to terminate the employment of such officer, employee or consultant, or as appropriate to remove such director from the UDT Board of Directors in recognition of Title 10, U.S.C. (S) D2408.

J. Treat all costs associated with the termination, severance and/or removal of any director, officer, employee or consultant of UDT under paragraph I, above, as unallowable for Federal Government Contract purposes.

K. Continue for a period of three years following full and complete implementation, the actions and procedures described in Annex I and elsewhere in the body of this agreement.

6. During the term of this agreement, UDT shall not knowingly employ, engage or accept the services of an individual who is listed by a Federal Agency as debarred, suspended, or otherwise ineligible for Federal contracting. Reasonable inquiry shall be made into the suspension/debarment status of any potential employee or consultant prior to the offer of employment or engagement of services. Further, UDT shall promptly terminate the employment of or contract for services with any individual who was suspended or debarred as of the effective date of their association with UDT. Moreover, UDT shall immediately remove such individuals from responsibility for or involvement with Government contract matters until the resolution of any question there might be regarding their suspension or debarment status as of the time of their association with UDT.

7. During the term of this agreement, UDT shall not knowingly enter into any subcontract or other business relationship relating to Federal Government contracts with any individual or business entity listed as debarred, suspended, or otherwise ineligible for contracting by a Federal Agency (hereinafter "listed contractor") until it has prepared a notice in form and content as specified in FAR 9.405-2(b), and has submitted a copy thereof to the Counsel, Procurement Integrity Office. Further, UDT shall make reasonable inquiry into the listed contractor status of each prospective business associate prior to the execution of any subcontract or the commencement of any other type of business relationship. In addition, UDT shall give written notice of the prohibition effected by this paragraph to all parties to any potential transaction involving a subcontract or other business relationship relating to Federal Government contracting prior to

the execution of such subcontract or the commencement of such business relationship.

8. In addition to these costs stated in paragraphs 5.J and 9, UDT agrees that the costs described below shall be unallowable for United States Government contract purposes and shall not be charged directly or indirectly to any such contract or subcontract.

A. All costs of performing the actions set forth in Annex I accomplished by UDT subsequent to its learning of the investigation that resulted in the Information and Plea Agreement and Stipulation for Consent Judgment and Consent Judgment set forth in Annex II.

B. All costs of legal services (whether performed by in-house or private counsel), administrative and clerical services, services of accountants and consultants, salaries and wages of employees, officers, and directors, travel, and any costs directly related to the aforesaid, incurred in the implementation of and/or continued compliance with the terms of this agreement.

9. Within thirty days of the effective date of this agreement, UDT Corporation will remit the sum of \$10,000, made payable to the Treasury of the United State, and for final payment of these administrative costs incurred, or to be incurred, by the Government because of UDT's improper activity, which include but are not limited to the costs of investigating the charges, and of monitoring, reviewing, enforcing, and administering this Agreement.

10. Except as provided in paragraph 14, the execution of this agreement by the Navy in no way waives any criminal, civil, contractual, or administrative remedy or right that the Government may have for the acts described in Annex I or for any other conduct that would give rise to such remedies. In addition, this agreement does not alter or limit in any way the releases and waivers previously provided for by the agreements with the U.S. Department of Justice, set forth in Annex I.

11. Failure by UDT to meet any of its obligations under the terms and spirit of this agreement, or to timely perform any of the actions identified in Annex I, not cured to the reasonable satisfaction of the Navy Debarring Authority within 20 working days, or as otherwise agreed, after receipt of written notice of such failure, shall constitute a cause for institution of suspension or debarment proceedings subject to the procedures established by the Federal Acquisition Regulation and any other applicable statute or regulation.

12. By execution of this agreement, UDT releases the United States, its employees, agents, and instrumentalities, in both official and personal capacities, of any and all liability arising out of or otherwise related to this agreement. Further, UDT agrees not to file any claim against the United States, its employees, agents, and instrumentalities, in both official and personal capacities, in any form or jurisdiction, with regard to any matter arising out of or otherwise related to this agreement.

13. By execution of this agreement, UDT avers that any adverse action taken or to be taken against any UDT director, officer, employee, consultant, or agent, with regard to any matter arising out of or related to the facts and circumstances set forth in Annex II are the result solely of UDT's initiatives and decisions, and are not the result of any action by or on behalf of the United States, its employees, agents or instrumentalities.

14. UDT agrees to indemnify the Government against, and hold the Government harmless from, any and all claims, liabilities, obligations, and causes of action of whatsoever kind or nature for injury to, or death of, any person, and for any injury or damage to or destruction of any property, arising out of or as a result of the facts which form the basis for this agreement, even if the Government's liability to any person arises out of the acts or omissions of the Government, its employees, agents, invitees, or representatives of any other description whatsoever.

15. In recognition of the actions by and covenants of UDT set forth herein, the Navy, on behalf of the Department of Defense, will not suspend or debar UDT based upon the facts set forth in Annex II.

16. This agreement is a public document and may be distributed by the Navy throughout the Executive Branch of the Government and to other interested parties.

17. Modifications to this agreement may be made but shall have no effect until their terms are expressly incorporated in a writing which has been executed by both parties. Neither party shall seek or accept the benefit of a judicial or quasi-judicial order directing the other to execute a writing which would, if executed, modify this agreement.

18. For purposes of interpretation of this agreement, or any part hereof, by a court of competent jurisdiction (or any other judicial or quasi-judicial body), this agreement shall be deemed to have been drafted equally by all parties hereto.

19. This agreement shall become effective on the date of the last signature hereto and shall continue thereafter for a period of three years from that date or, should UDT for any reason cease to be in full compliance with the letter and spirit of this agreement, for a period of three years following reestablishment for full compliance as determined by the Navy Debarring and Suspending Official, whichever period is longest.

20. This agreement constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, oral or written, with respect to the subject hereof. This agreement shall inure to the benefit of, and be binding upon, the parties and their respective successors and assigns.

Date: 7/25/95

UDT SENSORS, INC.

By: /s/ Deepak Chopra

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Deepak Chopra  
President and CEO

Date: November 9, 1995

DEPARTMENT OF THE NAVY

By: /s/

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Department and Suspension Officer  
Office of Procurement Integrity