

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 8-K/A**

(Amendment No. 1)

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED)

**September 9, 2016**

**OSI SYSTEMS, INC.**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

**DELAWARE**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION)

**000-23125**  
(COMMISSION  
FILE NUMBER)

**330238801**  
(I. R. S. EMPLOYER  
IDENTIFICATION NO.)

**12525 CHADRON AVENUE  
HAWTHORNE, CA 90250**  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

**(310) 978-0516**  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

**N/A**  
(FORMER NAME OR FORMER ADDRESS, IF CHANGED SINCE LAST REPORT)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Explanatory Note**

This Form 8-K/A is filed as an amendment ("Amendment No. 1") to the Current Report on Form 8-K filed by OSI Systems, Inc. (the "Company") on September 12, 2016 (the "Original 8-K"). As previously reported in the Original 8-K, on September 9, 2016, the Company completed the acquisition of American Science and Engineering, Inc. ("AS&E") in accordance with the previously announced Agreement and Plan of Merger (the "Merger Agreement") among the Company, Apple Merger Sub, Inc., a newly formed and wholly owned subsidiary of the Company ("Merger Sub"), and AS&E. Pursuant to the Merger Agreement, Merger Sub merged with and into AS&E, with AS&E becoming a wholly owned subsidiary of the Company effective as of September 9, 2016. This Amendment No. 1 amends and supplements Item 9.01 of the Original 8-K to include the financial information required under Item 9.01 which was not previously filed with the Original 8-K and which is permitted to be filed by amendment no later than 71 calendar days after the date on which the Original 8-K was required to be filed. Except as stated in this Explanatory Note, no other information contained in the Original 8-K is changed.

**Item 9.01 Financial Statements and Exhibits**

(a) *Financial Statements of Businesses Acquired*

The financial statements for AS&E required under Item 9.01(a) of Form 8-K are filed as Exhibit 99.1 and Exhibit 99.2 to this Amendment No. 1 and are incorporated herein by reference.

(b) *Pro Forma Financial Information*

The pro forma financial information required under Item 9.01(b) of Form 8-K is filed as Exhibit 99.3 to this Amendment No. 1 and is incorporated herein by reference.

(d) *Exhibits.*

<u>Exhibit No.</u>	<u>Description</u>
23.1	Consent of RSM US LLP
99.1	Unaudited condensed consolidated interim financial statements of AS&E as of and for the three months ended June 30, 2016
99.2	Audited consolidated financial statements of AS&E as of and for the year ended March 31, 2016
99.3	Unaudited pro forma condensed combined financial information as of and for the year ended June 30, 2016

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 28, 2016

OSI Systems, Inc.

By: /s/ Victor Sze  
Victor S. Sze  
General Counsel

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**EXHIBIT INDEX**

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99.3	Unaudited pro forma condensed combined financial information as of and for the year ended June 30, 2016

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements ( No. 333-73618, 333-75228, 333-100791, 333-101716, 333-119704, and 333-148937) on Form S-3 and the Registration Statements ( No. 333-45049, 333-69433, 333-106176, 333-122674, 333-132142, 333-148936, 333-157032, 333-173758, 333-190693, and 333-213552) on Form S-8 of OSI Systems, Inc., of our report dated May 24, 2016, relating to the consolidated financial statements of American Science and Engineering, Inc. appearing in this Current Report on Form 8-K/A.

/s/ RSM US LLP

Boston, Massachusetts  
October 28, 2016

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## Financial Statements

Unaudited Condensed Consolidated Balance Sheets — June 30, 2016 and March 31, 2016

Unaudited Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)— For the three months ended June 30, 2016 and June 30, 2015

Unaudited Condensed Consolidated Statements of Cash Flows — For the three months ended June 30, 2016 and June 30, 2015

Notes to Unaudited Condensed Consolidated Financial Statements

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

<u>(In thousands, except share and per share amounts)</u>	<u>June 30, 2016</u>	<u>March 31, 2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 74,104	\$ 81,571
Restricted cash	7,989	6,809
Accounts receivable, net of allowances of \$824 and \$797 at June 30, 2016 and March 31, 2016, respectively	21,837	19,086
Unbilled costs and fees	2,107	2,250
Inventories, net	39,465	38,440
Prepaid expenses and other current assets	7,026	7,755
<b>Total current assets</b>	<b>152,528</b>	<b>155,911</b>
Equipment and leasehold improvements, net	6,087	6,477
Restricted cash	437	437
Deferred income taxes	9,274	8,181
Other assets	211	223
<b>Total assets</b>	<b>\$ 168,537</b>	<b>\$ 171,229</b>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,550	\$ 5,327
Accrued salaries and benefits	4,334	4,565
Accrued warranty costs	226	174
Deferred revenue	7,733	8,700
Customer deposits	13,926	12,787
Other current liabilities	3,944	3,203
<b>Total current liabilities</b>	<b>35,713</b>	<b>34,756</b>
Deferred revenue	3,803	4,508
Other long-term liabilities	1,110	842
<b>Total liabilities</b>	<b>40,626</b>	<b>40,106</b>
<b>Stockholders' equity:</b>		
Preferred stock, no par value, 100,000 shares authorized; no shares issued	—	—
Common stock, \$0.66 2/3 par value, 20,000,000 shares authorized; 7,138,104 and 7,137,081 shares issued and outstanding at June 30, 2016 and March 31, 2016, respectively	4,758	4,757
Capital in excess of par value	2,104	1,772
Retained earnings	121,049	124,594
<b>Total stockholders' equity</b>	<b>127,911</b>	<b>131,123</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 168,537</b>	<b>\$ 171,229</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
(Unaudited)

<u>(In thousands, except per share amounts)</u>	<u>For the Three Months Ended</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<b>Net sales and contract revenues:</b>		
Net product sales and contract revenues	\$ 16,116	\$ 19,141
Net service revenues	12,101	12,303
<b>Total net sales and contract revenues</b>	<b>28,217</b>	<b>31,444</b>
<b>Cost of sales and contracts:</b>		
Cost of product sales and contracts	8,612	10,620
Cost of service revenues	6,380	6,398
<b>Total cost of sales and contracts</b>	<b>14,992</b>	<b>17,018</b>
<b>Gross profit</b>	<b>13,225</b>	<b>14,426</b>
<b>Expenses:</b>		

Selling, general and administrative expenses	8,053	8,270
Research and development costs	5,095	6,889
Total operating expenses	13,148	15,159
<b>Operating income (loss)</b>	77	(733)
<b>Other income (expense):</b>		
Interest and investment income	88	34
Other expense, net	(86)	(93)
Total other income (expense)	2	(59)
Income (loss) before provision for (benefit from) income taxes	79	(792)
Provision for (benefit from) income taxes	25	(277)
<b>Net income (loss)</b>	<u>\$ 54</u>	<u>\$ (515)</u>
Other comprehensive income (loss):		
Unrealized gain on available for sale securities (net of tax)	—	1
<b>Comprehensive income (loss)</b>	<u>\$ 54</u>	<u>\$ (514)</u>
Income (loss) per share		
—Basic	\$ 0.01	\$ (0.07)
—Diluted	\$ 0.01	\$ (0.07)
Weighted average shares		
—Basic	7,135	7,161
—Diluted	7,136	7,161

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

(In thousands)	For the Three Months Ended	
	June 30, 2016	June 30, 2015
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 54	\$ (515)
Adjustments to reconcile net income (loss) to net cash used for operating activities:		
Depreciation and amortization	653	1,006
Provisions for contracts, inventory and accounts receivable reserves	101	35
Amortization of bond premium	—	34
Stock compensation expense	588	334
Deferred income taxes	(1,093)	—
Other	6	—
Changes in assets and liabilities:		
Accounts receivable	(2,778)	(3,114)
Unbilled costs and fees	143	(2,475)
Inventories	(1,099)	3,706
Prepaid expenses and other assets	741	1,101
Accounts payable	223	(3,141)
Customer deposits	1,139	(2,474)
Deferred revenue	(1,672)	309
Accrued expenses and other liabilities	830	(645)
Net cash used for operating activities	<u>(2,164)</u>	<u>(5,839)</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales and maturities of short-term investments	—	3,380
Purchases of property and equipment, net	(269)	(258)
Net cash (used for) provided by investing activities	<u>(269)</u>	<u>3,122</u>
<b>Cash flows from financing activities:</b>		
(Increase) decrease in restricted cash	(1,180)	855
Repurchase of shares of common stock	(154)	(2,263)
Reduction in income taxes due to the tax impact of employee stock options	(103)	—
Payment of common stock dividend	(3,597)	(3,611)
Net cash used for financing activities	<u>(5,034)</u>	<u>(5,019)</u>
Net decrease in cash and cash equivalents	(7,467)	(7,736)
Cash and cash equivalents at beginning of period	81,571	68,835
Cash and cash equivalents at end of period	<u>\$ 74,104</u>	<u>\$ 61,099</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. GENERAL**

The condensed consolidated financial statements include the accounts of American Science and Engineering, Inc. and its wholly owned subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated.

The unaudited condensed consolidated financial statements have been prepared in accordance with the requirements of Form 10-Q and consequently do not include all disclosures required by Form 10-K. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016, or fiscal 2016, as filed with the Securities and Exchange Commission on May 24, 2016.

The unaudited condensed consolidated financial statements, in the opinion of management, include all necessary adjustments, consisting solely of normal recurring adjustments, to present fairly the Company's financial position, results of operations and cash flows. These results are not necessarily indicative of the results to be expected for the entire year.

**Nature of Operations**

The Company develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security, force protection, public safety and other critical defense and security applications. The Company provides maintenance, warranty, engineering, and training and operator services related to these products. The Company has one reporting segment, X-ray detection solutions.

**Significant Accounting Policies**

For systems that are produced in a standard manufacturing operation and have shorter order to delivery cycles, the Company recognizes sales when title passes and when other revenue recognition criteria (such as transfer of risk and customer acceptance) are met. Revenues on cost reimbursable and custom long-term fixed price contracts are generally recorded as costs are incurred using the percentage of completion method.

The other significant accounting policies followed by the Company and its subsidiaries in preparing its consolidated financial statements are set forth in Note 1 to the consolidated financial statements included in its Form 10-K for the year ended March 31, 2016. There have been no changes to the Company's critical accounting policies during the three months ended June 30, 2016.

**Proposed Merger**

On June 20, 2016, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with OSI Systems, Inc., a Delaware corporation ("OSI"), and its newly formed, wholly owned subsidiary, Apple Merger Sub, Inc., a Massachusetts corporation ("Merger Sub"), providing for, subject to the terms and conditions of the Merger Agreement, the acquisition of the Company by OSI at a price of \$37.00 per share in cash, without interest and subject to deduction for any required tax withholding (the "Merger Consideration"), through the merger of Merger Sub into the Company (the "Merger"), with the Company surviving the Merger as a wholly owned subsidiary of OSI. In connection with the Merger, each share of the Company's common stock, par value \$0.66 2/3 (each, a "Share") issued and outstanding immediately prior to the effective time of the merger (the "Effective Time") (other than Shares owned by OSI, Merger Sub or any subsidiary of OSI or the Company immediately prior to the Effective Time or Shares held by a shareholder who has not voted in favor of the Merger Agreement or the Merger or consented thereto in writing and has perfected and not withdrawn a demand for appraisal rights of such Shares in accordance with the Massachusetts Business Corporation Act) will be canceled and extinguished and automatically converted into the right to receive the Merger Consideration.

During the period before the closing of the Merger or termination of the Merger Agreement, the Company is not permitted to pay any further dividends or make any distributions on its capital stock, or to purchase, retire, redeem or otherwise acquire any shares of its capital stock (subject to limited exceptions with respect to shares issued pursuant to stock incentive plans), without the prior consent of OSI.

Completion of the Merger is subject to customary closing conditions, including (i) approval of the Merger by the holders of two-thirds of the outstanding Shares, (ii) the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, (iii) the absence in the United States of any order, statute, rule or injunction being in effect that would prohibit consummation of the Merger, (iv) the accuracy of the Company's and OSI's representations and warranties,

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subject to the standards set forth in the Merger Agreement, (v) compliance in all material respects by the Company and OSI with their respective covenants and (vi) the absence of a material adverse effect on the Company.

Each party has agreed to use best efforts to cause the Merger to be consummated and to obtain antitrust approvals. To the extent required to obtain such approvals, OSI has agreed to propose, negotiate, offer to commit and effect divestitures and similar restraints with respect to the assets or businesses of OSI or the Company, except that OSI shall not be required to sell, divest or dispose of assets of the Company's cargo and/or mobile cargo inspection system businesses, license any Company intellectual property, provide any transition services, or initiate or participate in litigation with respect to any such matters.

The Merger Agreement contains certain termination rights for both the Company and OSI, including if the Merger is not consummated by December 20, 2016 (the "Outside Date"); provided that the Outside Date may be extended to obtain antitrust clearance (i) by three months upon the election of OSI in its sole discretion and (ii) an additional three months thereafter upon the mutual consent of OSI and the Company.

Under the Merger Agreement, the Company is entitled to receive a termination fee of \$11 million if all closing conditions other than those relating to antitrust approval for the Merger have been obtained by the Outside Date, as it may be extended, and the Merger Agreement is terminated by OSI or the Company. In addition, the Company is required to pay OSI a termination fee of \$11 million if (i) the Merger Agreement is terminated by (a) OSI if the Company's board of directors changes its recommendation in respect of the Merger or the Company enters into an alternative definitive acquisition agreement

or (b) the Company to accept a superior proposal prior to obtaining shareholder approval, or (ii) (a) an alternative transaction or proposal to acquire the Company is publicly made, (b) the Merger Agreement is terminated (x) as a result of the failure of the Merger to occur by the Outside Date, (y) because the Company's shareholders shall not have approved the Merger or (z) as a result of a material breach by the Company, and (c) within 12 months following the termination of the Merger Agreement the Company enters into a contract providing for the acquisition of the Company or otherwise consummates such a transaction.

On July 15, 2016, the Company filed a definitive proxy statement establishing the date of the special meeting of stockholders as August 31, 2016 to vote (i) to approve the merger agreement; (ii) to approve, on a nonbinding advisory basis, the "golden parachute" compensation that may be payable to our named executive officers in connection with the merger; and (iii) to approve one or more adjournments of the special meeting, if necessary or appropriate in the view of the board of directors of the Company, to solicit additional proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement.

### Stock Repurchase Program

On May 7, 2013, the Board of Directors announced the approval of its fifth Stock Repurchase Program which authorized the Company to repurchase up to \$35 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. On December 1, 2014, the Board of Directors announced an expansion of this stock repurchase program increasing the program authorization to \$50 million of shares of its common stock.

During the three months ended June 30, 2016, the Company repurchased 5,600 shares of its common stock at an average price of \$27.50. As of June 30, 2016, the remaining balance available under the Stock Repurchase Program was \$10,201,000.

Under the terms of the Merger Agreement, during the period before the closing of the Merger or termination of the Merger Agreement, the Company is not permitted to purchase, retire, redeem or otherwise acquire any shares of its capital stock (subject to limited exceptions with respect to shares issued pursuant to stock incentive plans) without the prior consent of OSI.

### Dividends

(In thousands)	Three Months Ended	
	June 30, 2016	June 30, 2015
Dividends declared	\$ 0.50	\$ 0.50
Dividends paid	\$ 0.50	\$ 0.50

Under the terms of the Merger Agreement, during the period before the closing of the Merger or termination of the Merger Agreement, the Company is not permitted to pay any further dividends or make any distributions on its capital stock without the prior consent of OSI.

### Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, restricted cash and accounts and unbilled receivables. At times, the Company maintains cash balances in excess of insured limits. The Company maintains its cash and cash equivalents with major financial institutions. The Company's credit risk is managed by investing its cash in money market funds, investment grade corporate debentures/bonds, U.S. government agency bonds, commercial paper, U.S. treasury bills and certificates of deposit.

### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services transferred to its customers. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The guidance is effective for annual periods beginning on or after December 15, 2017 (early adoption for annual periods beginning on or after December 15, 2016 is permitted). The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In January 2015 the FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items*, which eliminates from U.S. GAAP the concept of extraordinary items. Entities may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. It is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)*, which eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016 (our fiscal year 2018), including interim periods within that reporting period. The Company opted to adopt the provisions of ASU 2015-17 for the fiscal year ended March 31, 2016 on a prospective basis. The adoption of ASU 2015-17 did not have a material effect on the Company's financial position and resulted in the classification of the net tax position as a long-term asset in the Consolidated Balance Sheet at March 31, 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases* which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company's consolidated financial statements.

## 2. ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company accounts for stock-based awards made to its employees and Board of Directors in accordance with FASB Accounting Standards Codification ("FASB ASC") 718, *Compensation—Stock Compensation*, which requires the measurement and recognition of all compensation costs for stock-based awards made to employees and the Board of Directors based upon the grant date fair value over the requisite service period for awards expected to vest.

The Company recognized \$588,000 and \$334,000 of stock-based compensation costs for the three months ended June 30, 2016 and June 30, 2015, respectively. The income tax benefit recognized related to the compensation costs for the three months ended June 30, 2016 and June 30, 2015 was approximately \$207,000 and \$117,000 respectively.

The following table summarizes stock-based compensation costs included in the Company's consolidated statements of operations and comprehensive income (loss):

(In thousands)	Three Months Ended	
	June 30, 2016	June 30, 2015
Cost of revenues	\$ 121	\$ (35)
Selling, general and administrative expenses	467	369
Total stock-based compensation expense before tax	\$ 588	\$ 334

### Stock Option and Other Compensation Plans

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company had the following stock plans outstanding as of June 30, 2016: the 2005 Equity and Incentive Plan and the 2014 Equity and Incentive Plan. There are 394,000 shares remaining available for issuance under these plans. Vesting periods are at the discretion of the Board of Directors and typically range from one to three years. Options under these plans are granted at fair market value and have a term of ten years from the date of grant.

The Company deems the Black-Scholes option pricing model as the most appropriate method for determining the estimated fair value of stock-based awards. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock-based award; (2) the expected future stock volatility over the expected term; (3) a risk-free interest rate; and (4) the expected dividend yield. The expected term represents the expected period of time that the Company believes the options will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company's common stock and the risk-free interest rate is based on the U.S. Zero-Bond rate.

### Stock Options

The following tables summarize stock option activity for the three months ended June 30, 2016:

	Number of Shares	Weighted Average Exercise Price (\$)	Weighted Average Contractual Life (years)	Aggregate Intrinsic Value
<b>Options outstanding at March 31, 2016</b>	139,933	\$ 68.51	2.58	
Grants	—	—		
Exercises	—	—		—
Cancellations	(31,968)	66.52		
<b>Options outstanding at June 30, 2016</b>	<u>107,965</u>	\$ 69.10		
<b>Options exercisable at June 30, 2016</b>	<u>107,965</u>			

Information related to the stock options outstanding as of June 30, 2016 is as follows:

Range of Exercise Prices	Number of Shares	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price (\$)	Exercisable Number of Shares	Exercisable Weighted-Average Exercise Price (\$)
\$ 60.66-\$69.99	58,784	1.74	\$ 64.26	58,784	\$ 64.26
\$ 70.00-\$75.82	49,181	2.90	74.88	49,181	74.88
\$ 60.66-\$75.82	<u>107,965</u>	2.27	\$ 69.10	<u>107,965</u>	\$ 69.10

There were no options granted in the three months ended June 30, 2016.

As of June 30, 2016, there was no remaining unrecognized compensation cost related to options granted.

### Restricted Stock and Restricted Stock Units



The Company has instituted long-term incentive plans for certain key employees. These plans call for the issuance of restricted stock, restricted stock units, restricted stock options, and/or cash incentives which vest or are paid upon the achievement of certain performance-based goals as well as service time incurred. Restricted stock and restricted stock units may also be granted to other employees with vesting periods that range from one to three years. In addition, annually the non-employee directors are granted restricted stock. Restricted stock shares granted to our non-employee directors vest on a pro-rata basis, based on service performed over the non-employee director's one-year term of service. Certain of the stock and stock unit awards contain rights to receive non-forfeitable dividends. The fair values of the restricted stock and restricted stock unit awards are equal to the fair value of the Company's common stock on the date of grant.

Non-vested restricted stock and restricted stock unit awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of June 30, 2016, there was \$3,075,000 of total unrecognized compensation costs related to non-vested restricted stock and restricted stock unit awards granted under the Company's stock plans. These costs are expected to be recognized over a weighted average period of 1.4 years.

The following table summarizes the status of the Company's non-vested restricted stock and restricted stock unit awards for the three months ended June 30, 2016:

	Number of Shares	Weighted Average Grant Date Fair Value (\$)
<b>Outstanding at March 31, 2016</b>	165,952	\$ 51.01
Granted	5,122	34.08
Vested	(11,167)	47.63
Forfeited	(21,199)	48.63
<b>Outstanding at June 30, 2016</b>	<u>138,708</u>	<u>\$ 51.02</u>

### 3. INVENTORIES

Inventories consist of material, labor and manufacturing overhead and are recorded at the lower of cost, using the weighted average cost method, or net realizable value. Excess manufacturing overhead costs attributable to idle facility expenses, freight, handling costs and wasted material (spoilage) attributable to abnormally low production volumes (levels that materially differ from budgeted production plans due primarily to changes in customer demand) are excluded from inventory and recorded as an expense in the period incurred.

The components of inventories at June 30, 2016 and March 31, 2016 were as follows:

(In thousands)	June 30, 2016	March 31, 2016
Raw materials, completed sub-assemblies, and spare parts	\$ 19,602	\$ 19,605
Work-in-process	18,024	14,847
Finished goods	1,839	3,988
Total	<u>\$ 39,465</u>	<u>\$ 38,440</u>

### 4. INCOME PER COMMON AND COMMON EQUIVALENT SHARE

Basic earnings per common share is computed by dividing distributed and undistributed earnings to common stockholders by the weighted average number of shares of common stock outstanding during the period. Share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus are included in the calculation of basic earnings per share under the two-class method. Diluted earnings per share include the dilutive impact of options, and restricted stock units using the average share price of the Company's common stock for the period. For the three months ended June 30, 2016 and June 30, 2015, common stock equivalents of 177,000 and 195,000 shares, respectively, are excluded from diluted earnings per share, as their effect is anti-dilutive.

(In thousands except per share amounts)	Three Months Ended	
	June 30, 2016	June 30, 2015
<b>Earnings Per Share - Basic:</b>		
Net income (loss)	54	\$ (515)
Less: Distributed and undistributed earnings (loss) to unvested restricted stock units	6	(6)
Distributed and undistributed earnings (loss) to common shareholders — Basic	48	(509)
Weighted average number of common shares outstanding — basic	7,135	7,161
Net income (loss) per share — basic	<u>\$ 0.01</u>	<u>\$ (0.07)</u>
<b>Earnings Per Share - Diluted:</b>		
Weighted average number of common shares outstanding	7,135	7,161
Add dilutive effect of potential common shares	1	—
Weighted average number of common and potential common shares outstanding — diluted	7,136	7,161
Net income (loss) per share — diluted	<u>\$ 0.01</u>	<u>\$ (0.07)</u>

### 5. LETTERS OF CREDIT

In the normal course of business, the Company may provide certain customers and potential customers with performance guarantees, which are generally backed by standby letters of credit. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of its obligations, the probability of which management believes is low. As of June 30, 2016, the Company had outstanding \$15,763,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 64% of the outstanding letters of credit,

resulting in restricted cash balance of \$8,426,000 at June 30, 2016, of which \$437,000 was considered long-term restricted cash and investments due to the expiration date of the underlying letters of credit.

## 7. INCOME TAXES

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*, and recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return. The Company evaluates the need for a valuation allowance against its net deferred tax assets at period end based upon its three year cumulative income and its projections of future income, and records a valuation allowance against any net deferred tax assets if it is more likely than not that they will not be realized.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending March 31, 2013 through 2015 and by various state taxing authorities for the years ending March 31, 2012 through 2015.

The Company believes that there are no uncertain tax positions that require a reserve as of June 30, 2016.

## 8. GUARANTEES

Certain of the Company's products carry a one-year warranty, the costs of which are accrued for at the time of shipment or delivery. Accrual rates are based upon historical experience for the trailing twelve months and management's judgment of future exposure. Warranty experience for the three months ended June 30, 2016 and 2015 was as follows:

(In thousands)	Three Months Ended	
	June 30, 2016	June 30, 2015
Warranty accrual at beginning of period	\$ 174	\$ 159
Accruals for warranties issued during the period	105	91
Adjustment of preexisting accrual estimates	46	35
Warranty costs incurred during period	(99)	(97)
Warranty accrual at end of period	\$ 226	\$ 188

## 9. LEASE COMMITMENTS

In March 2005, the Company renewed its lease agreement for its corporate headquarters and manufacturing facilities in Billerica, Massachusetts. As part of the lease agreement, the Company's landlord agreed to certain renovations to the Billerica facility including

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the construction of additional high bay manufacturing space. The Company was responsible for a portion of the construction costs and was deemed to be the owner of the building during the construction period under FASB ASC 840, *Leases*.

In October 2014, the Company entered into an amendment of its lease agreement for the Billerica facilities extending the term of the lease through February 28, 2023 with an adjusted rent schedule commencing October 1, 2014. Due to certain provisions of the amended lease agreements which removed certain continuing financing obligations related to the building, it was determined that the lease no longer qualified as a capital lease and as such, the Company removed the capitalized building, associated accumulated depreciation and lease financing liability from its books. The associated gain of \$381,000 resulting from the removal of the building from our books was deferred and is being amortized over the modified lease term of the property.

## 10. COMMITMENTS AND CONTINGENCIES

### Deferred Revenue

The Company offers extended warranty and service contracts to its customers. These contracts typically cover a period of one to five years, and include advance payments that are recorded as deferred revenue. Revenue is recognized as services are performed over the life of the contract, which represents the period over which these revenues are earned. Costs associated with these extended warranty and service contracts are expensed to cost of sales and contracts as incurred.

### Legal Matters

The Company continues to cooperate with the Office of the Inspector General ("OIG") of the U.S. General Services Administration ("GSA") with respect to a subpoena issued on April 17, 2015. The investigation relates to the Company's discount practices and compliance with the pricing provisions of the Company's GSA Schedule contract. AS&E produced responsive materials to the GSA OIG from May 2015 through February 2016. The Company continues to cooperate fully with the investigation and at this time management is unable to predict the outcome of the investigation or estimate the amount of possible loss or range of loss with any certainty. It is possible that the investigation could lead to claims or findings of violations of the False Claims Act in connection with the Company's GSA contracting activity. Violations of the False Claims Act could result in the imposition of damages, including up to treble damages, plus civil penalties in some cases. The Company has incurred, and will continue to incur, legal costs in connection with the investigation, and could incur other costs, damages or penalties, depending on its outcome, which could be material.

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**CONSOLIDATED FINANCIAL STATEMENTS**

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets—March 31, 2016 and 2015

Consolidated Statements of Operations and Comprehensive Income (Loss) for the Years Ended March 31, 2016, 2015 and 2014

Consolidated Statements of Stockholders' Equity for the Years Ended March 31, 2016, 2015 and 2014

Consolidated Statements of Cash Flows for the Years Ended March 31, 2016, 2015 and 2014

Notes to Consolidated Financial Statements

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

 To the Board of Directors and Stockholders  
 of American Science and Engineering, Inc.

We have audited the accompanying consolidated balance sheets of American Science and Engineering, Inc. and subsidiaries (“the Company”) as of March 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended March 31, 2016. 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 the standards of the Public Company Accounting Oversight Board (United States). 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Science and Engineering, Inc. and subsidiaries as of March 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Boston, Massachusetts

May 24, 2016

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 MARCH 31, 2016 AND 2015**

(Amounts in thousands, except share and per share amounts)

	2016	2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 81,571	\$ 68,835
Restricted cash	6,809	6,193
Short-term investments, at fair value	—	24,533
Accounts receivable, net of allowances of \$797 at March 31, 2016 and \$333 at March 31, 2015	19,086	22,124
Unbilled costs and fees	2,250	1,848
Inventories	38,440	40,983
Prepaid expenses and other current assets	7,755	10,701
Deferred income taxes	—	2,486
<b>Total current assets</b>	<u>155,911</u>	<u>177,703</u>
Equipment and leasehold improvements, net	6,477	8,711
Restricted cash	437	208
Deferred income taxes	8,181	5,952
Other assets	223	534
<b>Total assets</b>	<u>\$ 171,229</u>	<u>\$ 193,108</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,327	\$ 7,200
Accrued salaries and benefits	4,565	6,769
Accrued warranty costs	174	159
Deferred revenue	8,700	7,355
Customer deposits	12,787	13,956
Other current liabilities	3,203	5,736
<b>Total current liabilities</b>	<u>34,756</u>	<u>41,175</u>
Deferred revenue	4,508	1,019
Other long term liabilities	842	507
<b>Total liabilities</b>	<u>40,106</u>	<u>42,701</u>

Commitments and contingencies (Notes 2 and 9)

**Stockholders' equity:**

Preferred stock, no par value		
Authorized—100,000 shares		
Issued—None	—	—
Common stock, \$0.66 <sup>2</sup> / <sub>3</sub> par value		
Authorized—20,000,000 shares		
Issued and outstanding— 7,137,081 shares at March 31, 2016 and 7,193,247 shares at March 31, 2015	4,757	4,795
Capital in excess of par value	1,772	3,334
Accumulated other comprehensive loss, net	—	(11)
Retained earnings	124,594	142,289
<b>Total stockholders' equity</b>	<b>131,123</b>	<b>150,407</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 171,229</b>	<b>\$ 193,108</b>

The accompanying notes are an integral part of these consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2015 AND 2014**  
(Amounts in thousands except per share amounts)

	2016	2015	2014
<b>Net sales and contract revenues:</b>			
Net product sales and contract revenues	\$ 54,220	\$ 75,982	\$ 121,251
Net service revenues	48,767	50,768	68,998
<b>Total net sales and contract revenues</b>	<b>102,987</b>	<b>126,750</b>	<b>190,249</b>
<b>Cost of sales and contracts:</b>			
Cost of product sales and contracts	31,826	44,084	76,952
Cost of service revenues	24,931	25,404	36,647
<b>Total cost of sales and contracts</b>	<b>56,757</b>	<b>69,488</b>	<b>113,599</b>
<b>Gross profit</b>	<b>46,230</b>	<b>57,262</b>	<b>76,650</b>
<b>Operating expenses:</b>			
Selling, general and administrative expenses	29,838	32,707	31,805
Research and development expenses	21,722	23,390	22,089
<b>Total operating expenses</b>	<b>51,560</b>	<b>56,097</b>	<b>53,894</b>
<b>Operating (loss) income</b>	<b>(5,330)</b>	<b>1,165</b>	<b>22,756</b>
<b>Other income (expense), net:</b>			
Interest and investment income, net	192	269	373
Interest expense	—	(18)	(53)
Other expense, net	(369)	(369)	(343)
<b>Total other income (expense), net</b>	<b>(177)</b>	<b>(118)</b>	<b>(23)</b>
<b>(Loss) income before (benefit from) provision for income taxes</b>	<b>(5,507)</b>	<b>1,047</b>	<b>22,733</b>
<b>(Benefit from) provision for income taxes</b>	<b>(2,258)</b>	<b>68</b>	<b>7,616</b>
<b>Net (loss) income</b>	<b>\$ (3,249)</b>	<b>\$ 979</b>	<b>\$ 15,117</b>
<b>Other comprehensive income (loss):</b>			
Unrealized gain (loss) on available for sale securities, net of tax	11	(24)	17
<b>Comprehensive (loss) income</b>	<b>\$ (3,238)</b>	<b>\$ 955</b>	<b>\$ 15,134</b>
<b>(Loss) income per share</b>			
— Basic	\$ (0.45)	\$ 0.13	\$ 1.92
— Diluted	\$ (0.45)	\$ 0.13	\$ 1.91
<b>Weighted average shares</b>			
— Basic	7,161	7,723	7,846
— Diluted	7,161	7,729	7,881
<b>Dividends declared per share</b>	<b>\$ 2.00</b>	<b>\$ 2.00</b>	<b>\$ 2.00</b>

The accompanying notes are an integral part of these consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2015 AND 2014**  
(Amounts in thousands, except share amounts)

	Common Stock Shares	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comp. Income (Loss)	Total
<b>Balance, March 31, 2013</b>	<b>7,980,202</b>	<b>\$ 5,320</b>	<b>\$ 41,458</b>	<b>\$ 157,471</b>	<b>\$ (4)</b>	<b>\$ 204,245</b>
Net income	—	—	—	15,117	—	15,117

Repurchase of common stock	(201,192)	(134)	(12,172)	—	—	(12,306)
Exercise of stock options	84,853	56	3,469	—	—	3,525
Vesting of restricted stock units	7,307	5	(5)	—	—	—
Issuances of restricted stock, net of forfeitures	12,845	8	(8)	—	—	—
Tax benefit accrued on stock option exercises	—	—	9	—	—	9
Stock-based compensation	—	—	2,485	16	—	2,501
Dividends declared	—	—	—	(15,713)	—	(15,713)
Net change in unrealized gains (losses) on investment securities, available-for-sale, net of tax	—	—	—	—	17	17
<b>Balance, March 31, 2014</b>	<b>7,884,015</b>	<b>\$ 5,255</b>	<b>\$ 35,236</b>	<b>\$ 156,891</b>	<b>\$ 13</b>	<b>\$ 197,395</b>
Net income	—	—	—	979	—	979
Repurchase of common stock	(743,099)	(495)	(35,977)	—	—	(36,472)
Exercise of stock options	26,224	18	1,056	—	—	1,074
Vesting of restricted stock units	16,875	11	(11)	—	—	—
Issuances of restricted stock, net of forfeitures	9,232	6	(6)	—	—	—
Tax benefit on share based compensation	—	—	291	—	—	291
Stock-based compensation	—	—	2,745	26	—	2,771
Dividends declared	—	—	—	(15,607)	—	(15,607)
Net change in unrealized gains (losses) on investment securities, available-for-sale, net of tax	—	—	—	—	(24)	(24)
<b>Balance, March 31, 2015</b>	<b>7,193,247</b>	<b>\$ 4,795</b>	<b>\$ 3,334</b>	<b>\$ 142,289</b>	<b>\$ (11)</b>	<b>\$ 150,407</b>
Net loss	—	—	—	(3,249)	—	(3,249)
Repurchase of common stock	(88,056)	(60)	(3,071)	—	—	(3,131)
Vesting of restricted stock units	12,797	9	(9)	—	—	—
Issuances of restricted stock, net of forfeitures	19,093	13	(13)	—	—	—
Tax expense on share based compensation	—	—	(69)	—	—	(69)
Stock-based compensation	—	—	1,600	7	—	1,607
Dividends declared	—	—	—	(14,453)	—	(14,453)
Net change in unrealized gains (losses) on investment securities, available-for-sale, net of tax	—	—	—	—	11	11
<b>Balance, March 31, 2016</b>	<b>7,137,081</b>	<b>\$ 4,757</b>	<b>\$ 1,772</b>	<b>\$ 124,594</b>	<b>\$ —</b>	<b>\$ 131,123</b>

The accompanying notes are an integral part of these consolidated financial statements.

**AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED MARCH 31, 2016, 2015 AND 2014**  
(Amounts in thousands)

	2016	2015	2014
<b>Cash flows from operating activities:</b>			
Net (loss) income	\$ (3,249)	\$ 979	\$ 15,117
Adjustments to reconcile net (loss) income to net cash provided by (used for) operating activities:			
Depreciation and amortization	3,619	4,565	5,303
Provisions for contracts, inventory, and accounts receivable reserves	1,220	674	1,328
Amortization of bond premium	72	832	1,551
Stock compensation expense	1,607	2,771	2,501
(Gain) loss on disposal of fixed assets	213	(49)	—
Deferred income taxes	257	2,655	378
Change in assets and liabilities:			
Accounts receivable	2,566	12,183	(5,813)
Unbilled costs and fees	(402)	643	2,384
Inventories	1,795	(8,271)	13,761
Prepaid expenses and other assets	3,257	(5,237)	3,636
Accrued income taxes	—	(2,338)	244
Accounts payable	(1,873)	(3,418)	2,247
Deferred revenue	4,834	(6,501)	(6,430)
Customer deposits	(1,169)	(2,633)	390
Accrued expenses and other liabilities	(4,387)	(7,991)	(4,051)
Total adjustments	11,609	(12,115)	17,429
Net cash provided by (used for) operating activities	8,360	(11,136)	32,546
<b>Cash flows from investing activities:</b>			
Proceeds from sales and maturities of short-term investments	24,472	92,471	88,040

Purchases of short-term instruments	—	(29,211)	(69,668)
Purchases of equipment and leasehold improvements	(1,598)	(2,580)	(1,821)
Net cash provided by investing activities	22,874	60,680	16,551
<b>Cash flows from financing activities:</b>			
(Increase) decrease in restricted cash	(845)	8,515	(1,399)
Repurchase of shares of common stock	(3,131)	(36,472)	(12,306)
Payment of common stock dividends	(14,453)	(15,607)	(15,713)
Repayment of leasehold financing	—	(653)	(1,488)
Proceeds from exercise of stock options	—	1,074	3,525
Tax benefit (expense) on share based compensation	(69)	291	9
Net cash used for financing activities	(18,498)	(42,852)	(27,372)
<b>Net increase in cash and cash equivalents</b>	12,736	6,692	21,725
<b>Cash and cash equivalents at beginning of year</b>	68,835	62,143	40,418
<b>Cash and cash equivalents at end of year</b>	<u>\$ 81,571</u>	<u>\$ 68,835</u>	<u>\$ 62,143</u>
<b>Supplemental disclosures of cash flow information:</b>			
Write-off of asset and related leasehold financing liability (Note 2)	\$ —	\$ 2,262	\$ —
Interest paid	\$ —	\$ 18	\$ 53
Income taxes paid	\$ 205	\$ 5,102	\$ 8,723

The accompanying notes are an integral part of these consolidated financial statements.

## AMERICAN SCIENCE AND ENGINEERING, INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations and Basis of Presentation

American Science and Engineering, Inc., a Massachusetts corporation formed in 1958, develops, manufactures, markets, and sells X-ray inspection and other detection products for homeland security, force protection and other critical defense applications.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation.

#### Use of Estimates

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

#### Cash and Cash Equivalents

The Company considers all investments, including money market funds and treasury bills, with original maturities of 90 days or less to be cash equivalents. The Company maintains cash and cash equivalent balances with financial institutions that exceed federally insured limits. The Company has not experienced any losses related to these balances, and management believes its risk of loss to be minimal.

#### Restricted Cash

Restricted cash consists of collateral for bid bonds and performance bonds issued related to customer contracts.

#### Short-term Investments and Cash Equivalents

Short-term investments and cash equivalents consist of investments in corporate debentures/bonds, government agency bonds, treasury bills, money market funds. These investments are classified as available-for-sale and are recorded at their fair values using the specific identification method. The unrealized holding gains or losses on these securities are included as a component of comprehensive income (loss) in the Consolidated Statements of Operations and Comprehensive Income (Loss).

#### Accounts Receivable and Unbilled Costs and Fees

Accounts receivable are recorded at the invoiced amount. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the Consolidated Statements of Cash Flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. It is the Company's policy to write off receivables when management determines the receivable has become uncollectible. Activity in the allowance for doubtful accounts is as follows:

(In thousands)	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions or Write- offs Charged to Reserves	Balance at End of Year
Fiscal 2016	\$ 333	\$ 472	\$ 8	\$ 797
Fiscal 2015	\$ 323	\$ 10	\$ —	\$ 333
Fiscal 2014	\$ 351	\$ (27)	\$ 1	\$ 323

Included in accounts receivable and unbilled costs and fees at March 31, 2016 and 2015 are \$5,489,000 and \$6,696,000, respectively, attributable to both prime and subcontracts with federal and state governments. The Company establishes a reserve

against unbilled costs and fees based on known troubled accounts or contracts, historical experience, and other currently available evidence. There was no activity in the reserve for unbilled costs and fees during fiscal 2016, 2015 and 2014.

## Inventories

Inventories consist of material, labor and manufacturing overhead and are recorded at the lower of cost, using the weighted average cost method, or net realizable value. Excessive manufacturing overhead costs attributable to idle facility expenses, freight, handling costs and wasted material (spoilage) attributable to abnormally low production volumes (levels that materially differ from budgeted production plans due primarily to changes in customer demand) are excluded from inventory and recorded as an expense in the period incurred.

The components of inventories at March 31, 2016 and 2015, net of inventory reserves, were as follows:

(In thousands)	2016	2015
Raw materials, completed subassemblies and spare parts	\$ 19,605	\$ 20,334
Work-in-process	14,847	17,853
Finished goods	3,988	2,796
<b>Total</b>	<b>\$ 38,440</b>	<b>\$ 40,983</b>

The Company periodically reviews quantities of inventory on hand and compares these amounts to expected usage of each particular product or product line. The Company records, as a charge to cost of sales and contracts, any amounts required to reduce the carrying value to net realizable value.

Activity in the reserve for excess or obsolete inventory is as follows:

(In thousands)	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions / Write-offs Charged to Reserves	Balance at End of Year
Fiscal 2016	\$ 8,294	\$ 748	\$ 664	\$ 8,378
Fiscal 2015	\$ 10,865	\$ 664	\$ 3,235	\$ 8,294
Fiscal 2014	\$ 11,052	\$ 1,355	\$ 1,542	\$ 10,865

## Equipment and Leasehold Improvements

The Company provides for depreciation and amortization of its fixed assets on a straight-line basis over estimated useful lives of 1-25 years or remaining lease terms. Expenditures for normal maintenance and repairs are charged to expense as incurred. Significant additions, renewals or betterments that extend the useful lives of the assets are capitalized at cost. The cost and accumulated depreciation applicable to equipment and leasehold improvements sold, or otherwise disposed of, are removed from the accounts, and any resulting gain or loss is included in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Equipment and leasehold improvements consisted of the following at March 31, 2016 and 2015:

(In thousands)	Estimated Useful Lives Lesser of 25 years or remaining lease term	2016	2015
Leasehold improvements		\$ 7,789	\$ 8,003
Equipment and tooling	5-10 years	6,759	5,871
Computer equipment and software	3-5 years	24,616	24,490
Furniture and fixtures	5-7 years	2,572	2,572
Demo and test equipment	2-5 years	8,782	8,596
Leased equipment	1-2 years or life of lease	63	63
Motor vehicles	3-5 years	87	74
Total		50,668	49,669
Less accumulated depreciation and amortization		(44,191)	(40,958)
Equipment and leasehold improvements, net		<u>\$ 6,477</u>	<u>\$ 8,711</u>

## Revenue Recognition

The Company recognizes certain Cargo Inspection, Mobile Cargo Inspection, Parcel and Personnel Screening Systems, and after-market part sales in accordance with Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 605-10, *Revenue Recognition*, which requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the fee is fixed and determinable; and (4) collectability is reasonably assured.

Infrequently, the Company receives requests from customers to hold product being purchased for a valid business purpose. The Company recognizes revenue for such arrangements provided the transaction meets, at a minimum, the following criteria: a valid business purpose for the arrangement exists; risk of ownership of the purchased product has transferred to the buyer; there is a fixed delivery date that is reasonable and consistent with the buyer's business purpose; the product is ready for shipment; the Company has no continuing performance obligation in regards to the product and the products have been

segregated from its inventories and cannot be used to fill other orders received. There was no product being held under these arrangements at March 31, 2016, March 31, 2015 or March 31, 2014.

Certain of the Company's contracts are multiple-element arrangements, which include standard products, custom-built systems or contract engineering projects, services (such as training), and service and maintenance contracts. In accordance with FASB ASC 605-25, *Revenue Recognition — Multiple Element Arrangements*, revenue arrangements that include multiple elements are analyzed to determine whether the deliverables can be divided into separate units of accounting or treated as a single unit of accounting. The Company allocates arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method. The selling price used for each deliverable is based on (a) vendor-specific objective evidence if available; (b) third-party evidence if vendor-specific objective evidence is not available; or (c) estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. Discounts, if applicable, are allocated proportionally on the basis of the relative selling price of each deliverable. Generally, there is no customer right of return provision in the Company's sales agreements. Revenues are allocated to a product or service when the following criteria are met: (1) the delivered item has value to the customer on a standalone basis; and (2) if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in the Company's control. The amount allocable to the delivered item's or items' unit or units of accounting is limited to the amount that is not contingent upon the delivery of additional items or meeting other specified performance conditions.

Revenues for certain long-term, custom-built systems or contract engineering projects are recognized on a percentage of completion basis. The lengths of these contracts typically range from one to five years from order to delivery and acceptance. Percentages-of-completion are determined by relating the actual costs of work performed to date for each contract to its estimated final costs. Revisions in costs and profit estimates are reflected in the period in which the facts causing the revision become known.

For all fixed price and long-term contracts, if a loss is anticipated on the contract, a provision is made in the period in which such losses are determined.

The Company recognizes sales for its systems that are produced in a standard manufacturing operation, have minimal customer site installation requirements and have shorter order to delivery cycles, when title passes and when other revenue recognition criteria are met. Management believes the customer's post-delivery acceptance provisions and installation requirements on certain of these systems are perfunctory and inconsequential and the costs of installation at the customer's site are accrued at the time of revenue recognition. The Company has demonstrated a history of customer acceptance subsequent to shipment and installation of these systems. For systems which entail more significant installation efforts and site work and/or have non-standard customer acceptance provisions, revenue recognition is deferred until installation is complete and customer acceptance has occurred.

Service revenues are recognized on time and materials engagements as the services are provided. Service contract revenues are recognized as service is performed over the length of the contract which reasonably approximates the period service revenues are earned.

The Company records billed shipping and handling fees and billed out-of-pocket expenses as revenue and the associated costs as cost of goods sold in the accompanying Consolidated Statements of Operations and Comprehensive I (Loss).

Training and service contracts deliverables are accounted for separately from the delivered product elements as the Company's undelivered products have value to its customers on a stand-alone basis. Accordingly, this service revenue is deferred and recognized as such services are performed.

Certain contracts require payments from the customer upon execution of the agreement that are included in customer deposits. Individual customer deposits are reduced by the amount of revenue recognized on the contract until a zero balance is reached. Revenue recognized in excess of billings under the contracts is included in unbilled costs and fees in the accompanying Consolidated

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Balance Sheets. Of the amounts in unbilled costs and fees at March 31, 2016, 98% are expected to be billed and collected during fiscal 2017.

Under the terms of certain cost reimbursement contracts, the Company is not permitted to bill customers a specified portion of the contract value until completion. Such retainages (approximately \$76,000 and \$40,000 at March 31, 2016 and March 31, 2015, respectively) result from both commercial contract retentions and government contract withholdings generally for up to 15% of fees, as well as the difference between the actual and provisional indirect cost billing rates. Retainages are included in the accompanying Consolidated Balance Sheets as components of unbilled costs and fees. The accuracy and appropriateness of the Company's direct and indirect costs and expenses under these cost reimbursement contracts and its accounts receivable recorded pursuant to such contracts, are subject to regulation and audit, including by the U.S. Defense Contract Audit Agency ("DCAA") or by other appropriate agencies of the U.S. government. Such agencies have the right to challenge the Company's cost estimates or allocations with respect to any government contract. Additionally, a portion of the payments to the Company under government contracts are provisional payments that are subject to potential adjustment upon audit by such agencies. Historically, such audits have not resulted in any significant disallowed costs.

### **Warranty Costs**

The Company generally provides on certain of its products a one year parts and labor warranty with the purchase of domestic equipment, and a one year parts only or parts and labor warranty on international equipment. The anticipated cost for this one year warranty is accrued for at the time of the sale based upon historical experience and management's estimates of future liabilities and is recorded as accrued warranty costs (see Note 5).

### **Deferred Revenue**

The Company offers to its customers extended warranty and service contracts. These contracts typically have a coverage period of one to five years, and include advance payments that are recorded as deferred revenue. Revenue is recognized as service is performed over the life of the contract, which represents the period over which these revenues are earned. Costs associated with these extended warranty and service contracts are expensed to cost of sales and contracts as incurred.

### **Impairment of Long-Lived Assets**

Long-lived assets are reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.



Impairment is assessed by comparing the estimated undiscounted cash flows over the asset's remaining life to the carrying amount of the asset. If the estimated cash flows are insufficient to recover the asset, an impairment loss is recognized based on the difference between the carrying value of the asset and the fair value of the asset less any costs of disposal. No impairment costs were recorded in the fiscal years ended March 31, 2016, 2015 and 2014.

### Accrued Salaries and Benefits

Accrued salaries and benefits at March 31, 2016 and March 31, 2015 include the following:

(In thousands)	2016	2015
Accrued payroll and payroll related taxes	\$ 889	\$ 1,145
Accrued incentive compensation	1,859	3,849
Accrued vacation	1,496	1,775
Accrued severance	321	—
Total accrued salaries and benefits	<u>\$ 4,565</u>	<u>\$ 6,769</u>

### Customer Deposits

For most international orders, the Company generally requires, as part of its terms and conditions, an advance deposit with order acceptance. For long-term international contracts, the Company will generally include milestone payments tied to a specific event and/or passage of time. These deposit amounts are recorded as a liability under customer deposits until reduced by revenue recognized against the specific contract.

### Other Current Liabilities

Other current liabilities at March 31, 2016 and March 31, 2015 include the following:

(In thousands)	2016	2015
Other accrued expenses	\$ 2,075	\$ 3,277
Accrued contract related costs	156	1,736
Accrued professional fees	753	433
Accrued sales commissions	219	290
Total other current liabilities	<u>\$ 3,203</u>	<u>\$ 5,736</u>

### Research and Development

Internally funded research and development costs including direct labor, material, subcontractor expenses and related overheads are expensed as incurred. Internally funded research and development costs were \$21,722,000, \$23,390,000 and \$22,089,000, in fiscal 2016, 2015, and 2014, respectively. In addition, the Company recognized revenues of \$986,000, \$918,000 and \$698,000 in fiscal 2016, 2015, and 2014, respectively, related to government and customer-sponsored research and development earned primarily on a cost reimbursement and fee basis as discussed above.

### Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, unbilled costs and fees, accounts payable and letters of credit. The recorded amounts of these instruments approximate their fair value (see Note 8).

### Income per Common and Potential Common Shares

Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during the year. Share-based payment awards entitling holders to receive non-forfeitable dividends before vesting are considered participating securities and thus are included in the calculation of basic earnings per share under the two-class method. Diluted earnings per share include the dilutive impact of options and restricted stock units using the average share price of the Company's common stock for the period. For the years ended March 31, 2016, 2015, and 2014, respectively, common stock equivalents of approximately 218,000, 211,000 and 176,000 are excluded from diluted earnings per share, as their effect is anti-dilutive.

(In thousands except per share amounts)	March 31, 2016	March 31, 2015	March 31, 2014
<b>Earnings per Share — Basic:</b>			
Net (loss) income	\$ (3,249)	\$ 979	\$ 15,117
Less: Distributed and undistributed earnings (losses) to unvested restricted stock units	30	2	(44)
Distributed and undistributed earnings to common shareholders — Basic	<u>\$ (3,219)</u>	<u>\$ 981</u>	<u>\$ 15,073</u>
Weighted average number of common shares outstanding — basic	7,161	7,723	7,846
(Loss) income per share — basic	\$ (0.45)	\$ 0.13	\$ 1.92
<b>Earnings per Share — Diluted:</b>			
Weighted average number of common shares outstanding — basic	7,161	7,723	7,846
Dilutive effect of stock-based awards	—	6	35
Weighted average number of common and potential common shares outstanding — diluted	<u>7,161</u>	<u>7,729</u>	<u>7,881</u>
(Loss) income per share — diluted	<u>\$ (0.45)</u>	<u>\$ 0.13</u>	<u>\$ 1.91</u>

### Income Taxes

The Company accounts for income taxes in accordance with FASB ASC 740, *Income Taxes*. Accordingly, the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using

enacted tax rates in effect for the year in which the differences are expected to be

reflected in the tax return. The Company records a valuation allowance against any net deferred tax assets if it is more likely than not that they will not be realized. The Company accounts for uncertain tax positions using a “more-likely-than-not” threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors that include, but are not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. The Company recognizes interest and penalties related to income tax matters in other income (expense) in the Consolidated Statement of Operations and Comprehensive Income (Loss).

### Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents, restricted cash, short-term investments and accounts and unbilled receivables. The Company maintains cash balances in excess of insured limits. The Company maintains its cash and cash equivalents with major financial institutions. The Company’s credit risk is managed by investing its cash in high quality money market funds, commercial paper, investment grade corporate bonds, treasury bills, government agency bonds, and certificates of deposit.

Two international customers accounted for 36% of the accounts receivable balance at March 31, 2016. The Company generally requires letters of credit and/or deposits or prepayments from international customers.

### Common Stock Dividends

In May 2007, the Company began declaring quarterly cash dividends for its common stock shareholders. Common stock cash dividends declared during the fiscal year ended March 31, 2016 were as follows:

Date Declared	Dividend per common share
May 11, 2015	\$ 0.50
August 6, 2015	0.50
November 9, 2015	0.50
February 8, 2016	0.50
Fiscal year ended March 31, 2016	\$ 2.00

On May 9, 2016, the Company declared a quarterly dividend of \$0.50 for holders of record on May 23, 2016 to be paid June 1, 2016.

### Stock-Based Compensation

Compensation expense for the fair value of stock based awards made to employees and the Board of Directors is recognized over the requisite service period for awards expected to vest. The Company estimates the fair value of option awards on the date of grant using the Black-Scholes option pricing model. The Black-Scholes method of valuation requires several assumptions: (1) the expected term of the stock award, (2) the expected future stock volatility over the expected term, (3) the expected dividend yield and (4) risk-free interest rate. The expected term represents the expected period of time the Company believes the awards will be outstanding based on historical information. Estimates of expected future stock price volatility are based on the historic volatility of the Company’s common stock. The expected dividend yield was based on the expectation the Company would continue paying dividends on the Company’s common stock at the same rate for the foreseeable future. The risk free interest rate is based on the U.S. Zero-Bond rate.

The Company recognized \$1,607,000, \$2,771,000 and \$2,501,000 of stock-based compensation costs in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended March 31, 2016, 2015 and 2014, respectively. The income tax benefit related to such compensation for the years ended March 31, 2016, 2015 and 2014 was approximately \$629,000, \$985,000 and \$833,000, respectively.

The following table summarizes share-based compensation costs included in the Company’s Consolidated Statements of Operations and Comprehensive Income (Loss).

(In thousands)	Fiscal Year Ended		
	March 31, 2016	March 31, 2015	March 31, 2014
Cost of sales and contracts	\$ 248	\$ 773	\$ 867
Selling, general and administrative	1,359	1,998	1,634
Total share-based compensation expense before tax	\$ 1,607	\$ 2,771	\$ 2,501

### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, *Revenue From Contracts With Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The ASU is based on the principle that an entity should recognize revenue in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services transferred to its customers. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to fulfill a contract. Entities have the option of using either a full retrospective or a modified retrospective approach for the adoption of the new standard. The guidance is effective for annual periods beginning on or after December 15, 2017 (early adoption for annual periods beginning on or after December 15, 2016 is permitted). The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation — Stock Compensation (Topic 718)*. ASU 2014-12 addresses accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. ASU 2014-12 indicates that, in such situations, the performance target should be treated as a performance condition and, accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Instead, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. ASU 2014-12 is effective for annual periods and interim periods beginning after December 15, 2015. The Company does not expect the adoption of ASU 2014-12 to have a material effect on our financial position, results of operations or cash flows.

In January 2015 the FASB issued ASU No. 2015-01, *Income Statement—Extraordinary and Unusual Items*, which eliminates from U.S. GAAP the concept of extraordinary items. Entities may apply the amendments prospectively or retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. ASU No. 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out (“LIFO”) or the retail inventory method. It is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the impact that this standard will have on its consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)*, which eliminates the current requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. To simplify the presentation of deferred income taxes, ASU 2015-17 requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016 (our fiscal year 2018), including interim periods within that reporting period. The Company opted to adopt the provisions of ASU 2015-17 for the fiscal year ended March 31, 2016 on a prospective basis. The adoption of ASU 2015-17 did not have a material effect on the Company’s financial position and resulted in the classification of the net tax position as a long-term asset in the Consolidated Balance Sheet at March 31, 2016.

In February 2016, the FASB issued ASU 2016-02, *Leases* which, for operating leases, requires a lessee to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. The ASU is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of ASU 2016-02 will have on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends FASB ASC Topic 718, *Compensation — Stock Compensation*. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and

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interim periods within those fiscal years and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its consolidated financial statements.

## 2. LEASE AGREEMENTS

The Company leases certain facilities under non-cancelable operating leases with various renewal options. For operating leases which contain fixed escalations in rental payments, the Company records the total rent payable on a straight-line basis over the original lease term. The Company incurred \$2,479,000, \$1,787,000 and \$1,030,000 of operating rent expense in the fiscal years ended March 31, 2016, 2015, and 2014, respectively.

In March 2005, the Company renewed its lease agreement for its corporate headquarters and manufacturing facilities in Billerica, Massachusetts. As part of the lease agreement, the Company’s landlord agreed to certain renovations to the Billerica facility including the construction of additional high bay manufacturing space. The Company was responsible for a portion of the construction costs and was deemed to be the owner of the building during the construction period.

At the completion of the construction of the initial renovations in February 2006, the lease was reviewed for potential sale-leaseback treatment in accordance with ASC 840 *Leases*. Based on this review, it was determined that the lease did not qualify for sale-leaseback treatment. As a result, the building and tenant improvements recorded and the associated lease financing liabilities remained on the Company’s financial statements. The lease financing liability was amortized over the lease term based on the payments designated in the agreement, and the building and tenant improvement assets began to be depreciated on a straight line basis over the remaining lease term.

In October 2014, the Company entered into an amendment of its lease agreement for the Billerica facilities extending the term of the lease through February 28, 2023 with an adjusted rent schedule commencing October 1, 2014. Due to certain provisions of the amended lease agreements which removed certain continuing financing obligations related to the building, it was determined that the lease no longer qualified as a capital lease and as such, the Company removed the capitalized building, associated accumulated depreciation and lease financing liability from its books and records. The associated gain from the disposal of the building of \$381,000 was deferred and is being amortized over the modified lease term of the property.

Future minimum rental payments under the Company’s non-cancelable leases, excluding real estate taxes, insurance and operating costs paid by the Company, required over the terms of the leases are as follows (in thousands):

Year Ending March 31,	Operating Leases
2017	\$ 1,439
2018	1,741
2019	1,745
2020	1,791
2021	1,838

Thereafter	3,604
Total payments	<u>\$ 12,158</u>

### 3. LETTERS OF CREDIT

In the normal course of business, the Company may provide certain customers and potential customers with bid bonds or performance guarantees, which are generally backed by standby letters of credit. In general, the Company would only be liable for the amount of these guarantees in the event of default in the performance of its obligations, the probability of which is remote in management's opinion. At March 31, 2016, the Company had outstanding \$13,516,000 in standby letters of credit. These outstanding standby letters of credit are cash-secured at amounts ranging from 52% to 63% of the outstanding letters of credit. This resulted in a restricted cash balance of \$7,246,000 at March 31, 2016 of which \$437,000 was considered long-term restricted cash due to the expiration date of the underlying letters of credit.

### 4. INCOME TAXES

The (benefit from) provision for income taxes for the years ended March 31, 2016, 2015, and 2014 consisted of the following:

(In thousands)	2016	2015	2014
Current:			
Federal	\$ (2,697)	\$ (2,688)	\$ 6,870
State	4	19	281
Foreign	178	70	88
	<u>(2,515)</u>	<u>(2,599)</u>	<u>7,239</u>
Deferred:			
Federal	457	2,691	528
State	(372)	(208)	(358)
Change in valuation allowance	172	184	207
	<u>257</u>	<u>2,667</u>	<u>377</u>
(Benefit from) provision for income taxes	<u>\$ (2,258)</u>	<u>\$ 68</u>	<u>\$ 7,616</u>

The difference between the total expected provision for income taxes computed by applying the statutory federal income tax rate to income before provision for income taxes and the recorded provision for income taxes for the three years in the period ended March 31, 2016 is as follows:

(In thousands)	2016	2015	2014
(Benefit from) provision for income taxes at statutory rate	\$ (1,928)	\$ 366	\$ 7,957
State tax benefit net of federal effect	(239)	(122)	(50)
Stock based compensation	57	(60)	51
Research tax credits	(624)	(396)	(294)
Qualifying manufacturing credits	—	—	(288)
Change in valuation allowance	172	184	207
Other	304	96	33
(Benefit from) provision for income taxes	<u>\$ (2,258)</u>	<u>\$ 68</u>	<u>\$ 7,616</u>

For the fiscal year ended March 31, 2016, the Company elected to early adopt on a prospective basis the provisions of ASU 2015-17 which eliminated the requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. The adoption of ASU 2015-17 did not have a material effect on the Company's financial position and results of operations.

The significant components of the net deferred tax assets at March 31, 2016 and 2015 are as follows:

(In thousands)	March 31, 2016		March 31, 2015	
	Current	Non-current	Current	Non-current
Deferred tax assets (liabilities):				
Accounts receivable and unbilled costs and fees	\$ —	\$ 277	\$ —	\$ 119
Inventory	—	3,293	150	2,964
Deferred revenue	—	330	—	1,265
Accrued vacation	—	468	571	—
Accrued warranty costs	—	60	57	—
Depreciation	—	1,127	—	569
Accrued contract costs	—	(660)	168	(905)
Unearned compensation	—	2,749	1,407	2,295
State net operating losses and credit carryforwards	—	1,592	—	1,334
Research and development credits	—	403	—	—
Other	—	23	133	(355)
Deferred income tax assets	<u>—</u>	<u>9,662</u>	<u>2,486</u>	<u>7,286</u>
Valuation allowance	<u>—</u>	<u>(1,481)</u>	<u>—</u>	<u>(1,334)</u>
Net deferred income tax assets	<u>\$ —</u>	<u>\$ 8,181</u>	<u>\$ 2,486</u>	<u>\$ 5,952</u>

As of March 31, 2016 and March 31, 2015, the Company had \$2,244,000 and \$2,053,000 of state credit carryforwards, respectively. Of these amounts, approximately \$308,000 and \$244,000 at March 31, 2016 and March 31, 2015, respectively, have unlimited carryforward and the remaining balances expire in various years through 2031.

At March 31, 2016 and March 31, 2015, the Company had a deferred tax valuation allowance of \$1,481,000 and \$1,334,000, respectively, on state credit carryforwards and other deferred tax assets for which management believes it is more-likely-than-not that realization of these assets will not occur.

As of March 31, 2016 and March 31, 2015, the Company had \$14,742,000 and \$8,062,000 of state net operating loss carryforwards, respectively. These losses will begin to expire after fiscal year 2035.

As of March 31, 2016, the Company had \$178,000 of foreign tax credits. These credits will begin to expire after fiscal year 2026.

The Company is currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending March 31, 2013 through 2015 and by various state taxing authorities for the years ending March 31, 2012 through 2015.

The Company believes that there are no uncertain tax positions that require a reserve as of March 31, 2016.

In December 2015, the Research and Experimentation Credit, as defined by Internal Revenue Code Section 41 was reinstated retroactively to January 1, 2015. Due to this retroactive reinstatement, there was a significant impact on the rate for the year ended March 31, 2016.

## 5. WARRANTY OBLIGATIONS

Certain of the Company's products carry a one-year warranty, the costs of which are accrued for at time of shipment or delivery. Accrual rates are based upon historical experience over the preceding twelve months and management's judgment of future exposure. Warranty experience for the years ended March 31, 2016 and 2015 is as follows:

(In thousands)	2016	2015
Warranty accrual at beginning of period	\$ 159	\$ 404
Accruals for warranties issued during the period	338	237
Adjustment of preexisting accrual estimates	(246)	(217)
Warranty costs incurred during period	(77)	(265)
Warranty accrual at end of period	<u>\$ 174</u>	<u>\$ 159</u>

## 6. STOCKHOLDERS' EQUITY

### Preferred Stock

The Company's articles of organization authorize its Board of Directors to issue up to 100,000 shares of preferred stock in one or more series, to determine and fix certain relative rights and preferences of the shares of any series, 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 Company has no present plans to issue shares of preferred stock. In 1998, the Company designated a series of Preferred Stock (the "Series A Preferred Stock") to be issued upon the exercise of Rights issued under the Company's Shareholder Rights Plan. Under the Shareholder Rights Plan, adopted in 1998 and reissued upon its expiration in April 2008, its stockholders are entitled to purchase shares of its Series A Preferred Stock under certain circumstances. These circumstances include the purchase of 20% or more (or in certain circumstances more than 14.9%) of the outstanding shares of common stock by a person or group, or the announcement of a tender or exchange offer to acquire 20% or more (or in certain circumstances more than 14.9%) of the outstanding common stock.

### Stock Repurchase Program

On August 2, 2012, the Board of Directors announced the approval of the Company's fourth Stock Repurchase Program which authorized the Company to repurchase up to \$35 million of additional shares of its common stock from time to time on the open market or in privately negotiated transactions. This program was completed in May of 2013. On May 7, 2013, the Board of Directors announced the approval of its fifth Stock Repurchase Program which authorized the Company to repurchase up to an additional \$35 million of shares of its common stock from time to time on the open market or in privately negotiated transactions. On December 1, 2014, the Board of Directors announced an expansion of this Stock Repurchase Program increasing the program authorization to \$50 million of shares of its common stock.

During the fiscal year ended March 31, 2016, the Company repurchased 88,056 shares of common stock under this Program at an average price of \$35.56. As of March 31, 2016, the remaining balance available under the programs to repurchase shares was \$10,355,000.

### Stock Option and Other Compensation Plans

The Company has various stock option and other compensation plans for directors, officers, and employees. The Company had the following stock option plans outstanding as of March 31, 2016: the 2005 Equity and Incentive Plan, and the 2014 Equity and Incentive Plan. There are 390,000 shares remaining available for issuance under the 2014 Equity and Incentive Plan. Vesting periods are at the discretion of the Board of Directors and typically range from one to three years. Options under these plans are granted at fair market value and have a term of ten years from the date of grant.

**Stock Options:** A summary of the Company's stock option activity is as follows:

	2016		2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of year	191,834	\$ 66.03	224,964	\$ 62.75	315,162	\$ 56.72
Options granted	—	—	—	—	—	—
Options exercised	—	—	(26,224)	40.93	(84,853)	41.55
Options canceled or expired	(51,901)	59.34	(6,906)	54.58	(5,345)	43.66
Options outstanding, end of year	<u>139,933</u>	<u>\$ 68.51</u>	<u>191,834</u>	<u>\$ 66.03</u>	<u>224,964</u>	<u>\$ 62.75</u>

Options exercisable, end of year	139,933	\$	68.51	191,834	\$	66.03	223,150	\$	62.76
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The following summarizes certain data for options outstanding and exercisable at March 31, 2016:

	Number of Shares	Range of Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding and exercisable:	83,752	\$ 60.66-\$69.99	\$ 64.24	1.95
	56,181	\$ 70.00-\$75.82	74.87	3.52
	<u>139,933</u>	\$ 60.66-\$75.82	\$ 68.51	2.58

The total intrinsic value, representing the difference between market value on the date of exercise and the option price, of stock options exercised during fiscal 2015 and 2014 was \$616,000 and \$1,906,000, respectively. There were no options exercised during the fiscal year ended March 31, 2016. As of March 31, 2016, there was no unrecognized compensation cost related to non-vested stock option awards granted under the Company's stock plans.

The Company realizes a tax deduction upon the exercise of non-qualified stock options and disqualifying dispositions of incentive stock options due to the recognition of compensation expense in the calculation of its taxable income. The amount of the compensation recognized for tax purposes is based on the difference between the market value of the common stock and the option price at the date the options are exercised and/or sold. The Company receives an additional tax benefit (expense) when restricted stock vests at a higher (lower) value than the value used to recognize compensation expense at the date of grant. These tax benefits (expenses) are recorded to additional paid-in capital if it is considered more likely than not that they will be realized. During fiscal 2016, 2015 and 2014, a tax (expense) benefit of \$(69,000), \$291,000 and \$9,000, respectively, was recorded to additional paid-in capital for exercises and/or sales of stock options or stock.

**Restricted Stock and Restricted Stock Units:** The Company has instituted long term incentive plans for certain key employees. These plans call for the issuance of restricted stock, restricted stock units, stock options, and/or cash awards which vest upon the achievement of certain performance based goals as well as service time incurred. In fiscal year 2016, this award consisted of time based and performance based restricted stock unit awards. In fiscal years 2015 and 2014, this award consisted of restricted stock unit awards and cash.

Restricted stock and restricted stock units may also be granted to other employees with vesting periods that range from one to three years. In addition, annually the non-employee directors are granted restricted stock. Restricted stock shares granted to our non-employee directors vest on a pro-rata basis, based on service performed over the non-employee director's one-year term of service. Certain of the stock and stock unit awards contain rights to receive non-forfeitable dividends. The fair values of the restricted stock and restricted stock unit awards are equal to the fair value of the Company's common stock on the date of grant.

Non-vested restricted stock and stock unit awards are subject to the risk of forfeiture until the fulfillment of specified conditions. As of March 31, 2016 there was \$3,491,000 of total unrecognized compensation cost related to non-vested restricted stock and stock unit awards granted under the Company's stock plans. This cost is expected to be recognized over a weighted average of 1.6 years.

A summary of the Company's restricted stock and stock unit activity is as follows:

	2016		2015		2014	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Unvested restricted stock and units						
outstanding, beginning of year	91,837	\$ 62.99	72,000	\$ 61.30	28,109	\$ 66.20
Granted	121,939	43.54	65,950	63.67	70,515	60.52
Vested	(28,894)	53.38	(33,834)	60.89	(22,561)	64.53
Forfeited	(18,930)	57.42	(12,279)	62.53	(4,063)	63.73
Unvested restricted stock and units						
outstanding, end of year	<u>165,952</u>	\$ 51.01	<u>91,837</u>	\$ 62.99	<u>72,000</u>	\$ 61.30

## 7. BUSINESS SEGMENT INFORMATION

In accordance with the provisions of FASB ASC 280-10, *Segment Reporting*, the Company has determined that it has only one operating segment, the X-ray product segment. This includes X-ray inspection and other detection products for homeland security, force protection and other critical defense applications. The equipment is purchased by sophisticated government and commercial clients focused on the detection of organic material in complex backgrounds and the ability to see the contents of containers with precision.

### Geographical Data

All of the Company's export sales originate from the United States. At March 31, 2016, less than 4% of the Company's assets were in foreign countries. The foreign assets were comprised of cash in foreign banks, inventory in international depots for field replacements and systems shipped internationally but not accepted by fiscal year end.

The following table shows the breakdown of net sales and contract revenues from international and domestic customers based upon customer's country of domicile and the major regions of international activity:

### Net Sales and Contract Revenues

(Dollars in thousands)	Fiscal Year		
	2016	2015	2014

Domestic	\$ 54,870	53%	\$ 52,130	41%	\$ 94,427	50%
International	48,117	47%	74,620	59%	95,822	50%
Net Sales and Contract Revenues	\$ 102,987	100%	\$ 126,750	100%	\$ 190,249	100%
Middle East & Africa		62%		63%		72%
Americas — Non-US		10%		15%		11%
Asia / Pacific		22%		16%		11%
Europe		6%		6%		6%

In fiscal 2016, the Company had international sales to one country which accounted for 10% of the total sales of the Company. In fiscal 2015, the Company had international sales to one country which accounted for 16% of the total sales of the Company. In fiscal 2014, the Company had international sales to one country which accounted for 15% of the total sales of the Company.

**Major Customers:** Sales to major customers (representing in excess of 10% of consolidated revenues) consisted of the following:

**Fiscal 2016:** \$18,442,000 and \$16,837,000, respectively, to two customers.

**Fiscal 2015:** \$26,771,000 and \$16,212,000, respectively, to two customers.

**Fiscal 2014:** \$33,886,000, \$25,863,000 and \$25,078,000, respectively, to three customers.

Domestically, the Company's primary client base is comprised of agencies of the U.S. government. Approximately 49%, 37% and 46% of the Company's sales in fiscal 2016, 2015, and 2014 respectively, were derived from either (i) contracting directly with the U.S. government, or (ii) contracting with contractors working directly with the U.S. government. Certain of the Company's contracts with the U.S. government provide the U.S. government with the standard unilateral right to terminate these contracts for convenience. There were no terminations for convenience in the fiscal years ended March 31, 2016, 2015 or 2014.

## 8. FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements and Disclosures*, defines and establishes a framework for measuring fair value and expands disclosures about fair value measurements. In accordance with ASC 820, the Company categorized the Company's financial assets, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy as set forth below. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets recorded on the Consolidated Balance Sheets are categorized based on the inputs to the valuation techniques as follows:

**Level 1** - Financial assets whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date (examples include active exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

**Level 2** - Financial assets whose values are based on quoted prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets. Level 2 inputs include the following:

- Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds which trade infrequently);
- Inputs other than quoted prices that are observable for substantially the full term of the asset or liability (examples include interest rate and currency swaps); and
- Inputs that are derived principally from or corroborated by observable market data for substantially the full term of the asset or liability (examples include certain securities and derivatives).

**Level 3** - Financial assets whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's assumptions about the assumptions a market participant would use in pricing the asset or liability. The Company currently does not have any Level 3 financial assets or liabilities.

The following table presents the financial assets and liabilities the Company measured at fair value on a recurring basis, based on the fair value hierarchy as of March 31, 2016 and March 31, 2015:

(In thousands)	March 31, 2016	March 31, 2015
<b>Level 1 — Financial Assets</b>		
Money market funds	\$ 66,566	\$ 51,784
Treasury bills	—	5,403
Total Level 1 Financial Assets	66,566	57,187
<b>Level 2 — Financial Assets</b>		
Corporate debentures/bonds	—	13,813
Government agency bonds	—	5,317
Total Level 2 Financial Assets	—	19,130
Total cash equivalents and short-term investments	\$ 66,566	\$ 76,317

The following investments at March 31, 2015 are classified as available-for-sale and are recorded at their fair values using the specific identification method. The unrealized holding gains or losses on these securities are included as a component of comprehensive income (loss) in the Consolidated

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>March 31, 2015:</b>				
<b>Short-term investments:</b>				
Corporate debentures/bonds	\$ 13,823	\$ —	\$ (10)	\$ 13,813
Government agency bonds	5,315	2	—	5,317
Treasury bills	5,400	3	—	5,403
Total short-term investments	<u>\$ 24,538</u>	<u>\$ 5</u>	<u>\$ (10)</u>	<u>\$ 24,533</u>

## 9. COMMITMENTS AND CONTINGENCIES

### Purchase Commitments

In the normal course of business, the Company enters into purchase orders with its vendors for the purchase of materials or services to meet its production needs. At March 31, 2016, the Company had \$26,842,000 of open purchase orders which are expected to be fulfilled within the next two years. Certain single source vendors, or vendors producing custom material, require significant lead times from order to delivery of their material. Should the demand for the Company's products decline significantly, or should there be a significant shift in the mix of products being demanded, the Company may incur cancellation charges or be required to receive inventory in excess of current demand related to these commitments, that could be material to the Company's results of operations. To date, the Company has not experienced any material losses related to cancellation penalties.

### Retirement Savings Plan

The Company maintains a 401(k) Retirement Savings Plan (the "Plan") for all employees. Employees are immediately eligible to participate in the Plan upon hire. The Plan is funded by elective employee contributions of up to 100% of their compensation up to IRS limits. Under the Plan the Company at its discretion matches 50% of the first 6% of employee contributions for each participant in the form of Company common stock or cash. Expenses under the Plan, consisting of Company contributions which were made solely in cash totaled \$769,000, \$969,000 and \$927,000 in 2016, 2015 and 2014, respectively.

### Legal Matters

The Company continues to cooperate with the Office of the Inspector General ("OIG") of the U.S. General Services Administration ("GSA") with respect to a subpoena issued on April 17, 2015. The investigation relates to the Company's discount practices and compliance with the pricing provisions of the Company's GSA Schedule contract. AS&E produced responsive materials to the GSA OIG from May 2015 through February 2016. The Company continues to cooperate fully with the investigation and at this time management is unable to predict the outcome of the investigation or estimate the amount of possible loss or range of loss with any certainty. It is possible that the investigation could lead to claims or findings of violations of the False Claims Act in connection with the Company's GSA contracting activity. Violations of the False Claims Act could result in the imposition of damages, including up to treble damages, plus civil penalties in some cases. The Company has incurred, and will continue to incur, legal costs in connection with the investigation, and could incur other costs, damages or penalties, depending on its outcome, which could be material.



**OSI SYSTEMS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

The following unaudited pro forma condensed combined financial information and related notes present the historical condensed combined financial information of OSI Systems, Inc. (collectively, with its consolidated subsidiaries, "OSI Systems" or the "Company") and American Science and Engineering, Inc. ("AS&E") after giving effect to OSI Systems' acquisition of AS&E that was completed on September 9, 2016. AS&E is a leading provider of detection solutions for advanced cargo, parcel, and personnel inspection. The unaudited pro forma condensed combined financial information gives effect to the acquisition of AS&E based on the assumptions, reclassifications and adjustments described in the notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined balance sheet as of June 30, 2016 has been presented as if the acquisition of AS&E had occurred on such date. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2016 has been prepared as if the acquisition of AS&E had occurred on July 1, 2015. The historical financial information is adjusted in the unaudited pro forma condensed combined financial information to give effect to pro forma adjustments that are (1) directly attributable to the AS&E acquisition, (2) factually supportable and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results. The unaudited pro forma financial information does not reflect the cost of any integration activities or the benefit that may result from the merger of OSI Systems and AS&E. The unaudited pro forma condensed combined financial information is not necessarily indicative of, or intended to represent, the results that would have been achieved had the transaction been consummated as of the dates presented or of the results that may be achieved in the future.

The unaudited pro forma condensed consolidated combined financial information has been prepared pursuant to Regulation S-X Article 11. Accordingly, the assets acquired and liabilities assumed have been recorded at their estimated fair values at the date of acquisition. Any excess of the estimated purchase price of \$266 million over the estimated fair value of the net assets acquired has been recorded as goodwill. The preliminary estimates of fair values are reflected in the accompanying unaudited pro forma consolidated combined financial information.

The unaudited pro forma condensed combined financial information should be read in conjunction with the historical consolidated financial statements and accompanying notes of OSI Systems included in the Annual Report on Form 10-K for the fiscal year ended June 30, 2016, and the audited financial statements of AS&E for the fiscal year ended March 31, 2016 and the unaudited financial statements of AS&E for the three months ended June 30, 2016, included as Exhibits 99.1 and 99.2 to this Form 8-K/A.

**OSI SYSTEMS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET**  
**AS OF JUNE 30, 2016**  
**(amounts in thousands)**

<b>ASSETS</b>	<b>OSI</b>	<b>AS&amp;E</b>	<b>Pro Forma Adjustments</b>	<b>OSI Pro Forma</b>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 104,370	\$ 74,104	\$ (60,177) A	\$ 118,297
Restricted cash	—	7,989	(7,989) A	—
Accounts receivable	141,716	21,837	2,107 B	165,660
Unbilled costs and fees	—	2,107	(2,107) B	—
Inventories	273,288	39,465	—	312,753
Prepaid expenses and other current assets	35,944	7,026	—	42,970
Total current assets	<u>555,318</u>	<u>152,528</u>	<u>(68,166)</u>	<u>639,680</u>
Property and equipment, net	183,114	6,087	—	189,201
Goodwill	122,819	—	97,589 C	220,408
Intangible assets, net	56,283	—	74,800 D	131,083
Restricted cash	—	437	(437) A	—
Deferred income taxes	—	9,274	(9,274) E	—
Other assets	74,189	211	(16,342) E	58,058
Total assets	<u>\$ 991,723</u>	<u>\$ 168,537</u>	<u>\$ 78,170</u>	<u>\$ 1,238,430</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current liabilities:</b>				
Bank lines of credit	\$ 125,000	\$ —	\$ 196,000 F	\$ 321,000
Current portion of long-term debt	2,759	—	—	2,759
Accounts payable	69,490	5,550	—	75,040
Accrued payroll and related expenses	29,203	4,334	—	33,537
Accrued warranty costs	—	226	(226) G	—
Advances from customers	55,408	13,926	—	69,334
Deferred revenue	29,978	7,733	—	37,711
Other accrued expenses and current liabilities	55,997	3,944	8,907 G	68,848
Total current liabilities	<u>367,835</u>	<u>35,713</u>	<u>204,681</u>	<u>608,229</u>
Long-term debt	6,054	—	—	6,054
Deferred income taxes	29,160	—	—	29,160
Deferred revenue	—	3,803	(3,803) H	—
Other long-term liabilities	47,828	1,110	3,803 H	52,741
Total liabilities	<u>450,877</u>	<u>40,626</u>	<u>204,681</u>	<u>696,184</u>
<b>Stockholders' equity:</b>				

Preferred stock	—	—	—	—
Common stock	219,114	4,758	(3,358)	I 220,514
Capital in excess of par value		2,104	(2,104)	I —
Retained earnings	338,988	121,049	(121,049)	I 338,988
Accumulated other comprehensive loss	(17,256)	—	—	(17,256)
Total stockholders' equity	<u>540,846</u>	<u>127,911</u>	<u>(126,511)</u>	<u>542,246</u>
Total liabilities and stockholders' equity	<u>\$ 991,723</u>	<u>\$ 168,537</u>	<u>\$ 78,170</u>	<u>\$ 1,238,430</u>

See accompanying notes to unaudited pro forma condensed combined financial information.

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**OSI SYSTEMS, INC. AND SUBSIDIARIES**  
**UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS**  
(amounts in thousands, except per share data)

	Year Ended June 30, 2016 OSI	Year Ended March 31, 2016 AS&E	Pro Forma Adjustments	OSI Pro Forma
<b>Net revenues:</b>				
Products	\$ 579,345	\$ 54,220	\$ (4,804)	J \$ 628,761
Services	250,315	48,767	4,142	K 303,224
Total net revenues	<u>829,660</u>	<u>102,987</u>	<u>(662)</u>	<u>931,985</u>
<b>Cost of goods sold:</b>				
Products	407,880	31,826	(4,561)	L 435,145
Services	144,921	24,931	2,692	M 172,544
Total cost of goods sold	<u>552,801</u>	<u>56,757</u>	<u>(1,869)</u>	<u>607,689</u>
Gross profit	<u>276,859</u>	<u>46,230</u>	<u>1,207</u>	<u>324,296</u>
<b>Operating expenses:</b>				
Selling, general and administrative	166,655	29,838	6,380	N 202,873
Research and development	49,816	21,722	(1,458)	O 70,080
Impairment, restructuring and other charges	22,014	—	779	P 22,793
Total operating expenses	<u>238,485</u>	<u>51,560</u>	<u>5,701</u>	<u>295,746</u>
Income (loss) from operations	38,374	(5,330)	(4,494)	28,550
Interest and other expense, net	(2,879)	(177)	(4,624)	Q (7,680)
Income (loss) before income taxes	35,495	(5,507)	(9,118)	20,870
Provision (benefit) for income taxes	9,338	(2,258)	(3,556)	R 3,524
Net income (loss)	<u>\$ 26,157</u>	<u>\$ (3,249)</u>	<u>\$ (5,562)</u>	<u>\$ 17,346</u>
<b>Earnings per share:</b>				
Basic	<u>\$ 1.35</u>			<u>\$ 0.89</u>
Diluted	<u>\$ 1.30</u>			<u>\$ 0.86</u>
<b>Shares used in per share calculation:</b>				
Basic	<u>19,427</u>			<u>19,427</u>
Diluted	<u>20,076</u>			<u>20,076</u>

See accompanying notes to unaudited pro forma condensed combined financial information.

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**OSI SYSTEMS, INC. AND SUBSIDIARIES**  
**NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

**1. Basis of Pro Forma Presentation**

On September 9, 2016, the Company acquired by merger 100 percent ownership interest of American Science and Engineering, Inc. ("AS&E"), a leading provider of detection solutions for advanced cargo, parcel, and personnel inspection. OSI Systems paid \$37 per share in cash for total cash consideration of \$264.6 million. The Company financed the acquisition by a combination of cash on hand and borrowing under its existing revolving bank line of credit. In addition, the Company issued restricted stock units ("RSUs") for the Company's common stock as a replacement award for RSUs originally granted by AS&E. Further, the Company has preliminarily estimated that \$1.4 million of the fair value of the replacement award pertained to the precombination service period. Thus, this amount has been considered as part of the purchase price consideration for a total estimated purchase price of \$266 million. The impact of the replacement RSUs on the pro forma diluted number of shares was de minimis.

The unaudited pro forma condensed combined balance sheet as of June 30, 2016 and the unaudited pro forma condensed combined statement of operations for the year ended June 30, 2016 are based on the historical financial statements of OSI Systems and AS&E after giving effect to OSI Systems' acquisition of AS&E, which was completed on September 9, 2016, and the assumptions, reclassifications and adjustments described in the notes herein.

The unaudited pro forma condensed combined financial information is not intended to represent or be indicative of the results of operations or financial position of OSI Systems that would have been reported had the acquisition been completed as of the dates presented, or of future results of operations or financial position. The unaudited pro forma condensed combined financial information does not reflect the cost of any integration activities or the benefit that may result from the realization of future cost savings from operating synergies, or from the realization of any revenue, tax, or other synergies that may arise

due to the integration of OSI Systems and AS&E. The unaudited pro forma condensed combined financial information should be read in conjunction with OSI Systems' Annual Report on Form 10-K for the year ended June 30, 2016, as filed with the Securities and Exchange Commission on August 19, 2016, and in conjunction with the financial statements of AS&E, presented as Exhibits 99.1 and 99.2 of this Form 8-K/A.

The acquisition of AS&E has been accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification 805, *Business Combinations* ("ASC 805") under which the total estimated purchase price consideration is allocated to the tangible and intangible assets acquired and liabilities assumed based on their fair value as of the acquisition date with the excess amount of the purchase price over the fair value of the net assets acquired and liabilities assumed recorded as goodwill. OSI Systems' preliminary valuation of the fair values of net assets acquired, including intangible assets, and liabilities assumed is based on preliminary estimates and assumptions and is subject to change pending finalization of the valuations. These preliminary estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date) as OSI Systems finalizes the valuations of the tangible and intangible assets acquired and liabilities assumed from the acquisition. Any changes to the preliminary estimates of the fair value of the assets acquired and liabilities assumed will be recorded as adjustment to those assets and liabilities with the offset being recorded to goodwill.

The unaudited pro forma condensed combined balance sheet as of June 30, 2016 is presented as if the acquisition occurred on June 30, 2016. The unaudited pro forma condensed combined statement of operations for the year ended June 30, 2016 is presented as if the acquisition occurred on July 1, 2015. Due to different fiscal period ends, which are not in excess of 93 days apart, the pro forma condensed combined statement of operations for the year ended June 30, 2016 combines the historical results of OSI Systems for the year ended June 30, 2016 and the results of AS&E for the year ended March 31, 2016.

Based upon OSI Systems' review of AS&E's significant accounting policies, the pro forma financial information assumes there will be no adjustments required to conform AS&E's accounting policies to OSI Systems' accounting policies. However, certain balances from the historical financial statements of AS&E were reclassified to conform to OSI Systems' financial statement presentation as further discussed in Notes 3 and 4 to the unaudited pro forma condensed combined financial information. As of the date of this report, OSI Systems is not aware of any other differences that would have a material impact on the unaudited pro forma condensed combined financial information.

## 2. Acquisition Accounting Adjustments

The acquisition of AS&E has been accounted for under the acquisition method of accounting in accordance with ASC 805. Under the acquisition method of accounting, the assets acquired and liabilities assumed have been recorded at their estimated fair values at the date of acquisition. Any excess of the total estimated purchase price of \$266 million over the estimated fair value of the net assets acquired has been recorded as goodwill. OSI Systems' preliminary valuation of the fair values of net assets acquired, including

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intangible assets, and liabilities assumed is based on preliminary estimates and assumptions and is subject to change pending finalization of the valuations. Any changes to the preliminary estimates of the fair value of the assets acquired and liabilities assumed will be recorded as adjustment to those assets and liabilities with the offset being recorded to goodwill.

The following is a preliminary estimate of the assets acquired and the liabilities assumed by OSI Systems in the acquisition, reconciled to total estimated purchase consideration (in thousands):

Cash and cash equivalents	\$	82,530
Accounts receivables		23,944
Inventories		39,465
Prepaid expenses and other current assets		7,026
Property and equipment		6,087
Intangible assets		74,800
Other assets (see Note 3. E)		(16,131)
Accounts payable		(5,550)
Accrued payroll and related expenses		(4,334)
Advances from customers		(13,926)
Deferred revenue		(7,733)
Other accrued expenses current liabilities		(12,851)
Other long-term liabilities		(4,913)
Net assets acquired	\$	168,414
Goodwill		97,589
Total estimated purchase consideration	\$	<u>266,003</u>

## 3. Pro Forma Adjustments — Balance Sheet (in thousands)

### A) Cash and cash equivalents:

To record cash consideration paid to acquire AS&E	\$	(264,603)
Proceeds from borrowing under revolving bank line of credit		265,000
Repayment of borrowing from AS&E cash(1)		(69,000)
Reclassification of restricted cash - current		7,989
Reclassification of restricted cash - long term		437
	\$	<u>(60,177)</u>

Note 1 — Immediately following the close of the acquisition, OSI Systems used a portion of AS&E's existing cash on hand to pay down the revolving bank line of credit that was used to fund the transaction.

### B) Accounts receivable — Reclassification of AS&E's Unbilled costs and fees.

C) *Goodwill* — To record the estimated fair value of the goodwill had the acquisition occurred on June 30, 2016.

D) *Intangibles assets, net* — To record the estimated fair value at the date of acquisition of the identifiable intangible assets acquired:

	Approximate Weighted Average Lives	Fair Values	Pro Forma Amortization Expense
<b>Amortizable assets:</b>			
Developed technology	10 years	\$ 31,750	\$ 3,175
Customer relationships/backlog	7 years	27,550	4,216
Total amortizable assets		<u>59,300</u>	<u>\$ 7,391</u>
<b>Non-amortizable assets:</b>			
Trademarks		12,300	
IPR&D		3,200	
Total intangible assets		<u>\$ 74,800</u>	

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E) *Other assets:*

To record the reduction in the deferred income tax asset related to intangible assets had the acquisition occurred on June 30, 2016	\$ (29,172)
To record the tax impact of adjustments to the pro forma condensed combined statement of operations — (see Note 4. R below)	3,556
Reclassification of Deferred income tax asset	9,274
	<u>\$ (16,342)</u>

F) *Bank lines of credit:*

Proceeds from bank lines of credit	\$ 265,000
Repayment of bank lines of credit with AS&E cash	(69,000)
	<u>\$ 196,000</u>

G) *Other accrued expenses and current liabilities:*

Reclassification of Accrued warranty costs	\$ 226
Estimated transaction costs related to acquisition not included in June 30, 2016 Balance Sheets	8,681
	<u>\$ 8,907</u>

H) *Other long-term liabilities* — Reclassification of AS&E's Deferred revenue — long term.

I) *Stockholders' Equity* — Elimination of AS&E's historical equity balances had the acquisition occurred on June 30, 2016 and the issuance by the Company of replacement restricted stock unit awards related to the acquisition.

#### 4. Pro Forma Adjustments — Statement of Operations (in thousands)

J) *Net revenues — Products:*

Reclassification of sales of parts to support field service to Net revenues - Services	\$ (4,142)
Reclassification of third-party sales commissions from Costs of goods sold	(662)
	<u>\$ (4,804)</u>

K) *Net revenues — Services* — Reclassification of sales of parts to support field services from Net revenues — Products.

L) *Cost of goods sold — Products:*

Reclassification of parts to support field service to Cost of goods sold - Services	\$ (2,804)
Reclassification of third-party sales commissions to Net revenues - Products	(662)
Reclassification of costs related to a reduction in work force to Impairment, restructuring and other charges	(1,150)
Reclassification of costs from Interest and other expense, net	55
	<u>\$ (4,561)</u>

M) *Cost of goods sold — Services:*

Reclassification of parts to support field service from Cost of goods sold - Products	\$ 2,804
Reclassification of costs related to a reduction in work force to Impairment, restructuring and other charges	(112)
	<u>\$ 2,692</u>

N) *Selling, general and administrative:*

Reclassification of costs related to a reduction in work force to Impairment, restructuring and other charges	\$ (357)
Reclassification of costs from Interest and other expense, net	262

To record amortization of intangible assets acquired as a result of the acquisition (see Note 3. D above)	7,391
Eliminate AS&E's incremental transaction costs associated with the acquisition	(916)
	<u>\$ 6,380</u>

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O) *Research and development:*

Reclassification of costs related to a reduction in workforce to Impairment, restructuring and other charges	\$ (1,509)
Reclassification of costs from Interest and other expense, net	51
	<u>\$ (1,458)</u>

P) *Impairment, restructuring and other charges:*

Reclassification of costs related to a reduction in workforce from Costs of goods sold	\$ 1,262
Reclassification of costs related to a reduction in workforce from Selling, general and administrative	357
Reclassification of costs related to a reduction in workforce from Research and development	1,509
Elimination of OSI Systems' transaction costs associated with the acquisition	(2,349)
	<u>\$ 779</u>

Q) *Interest and other expense, net:*

To record interest expense on debt incurred to fund the acquisition of AS&E, net of immediate repayment of debt with AS&E cash.(1)	\$ (4,992)
Reclassification of costs to Cost of goods sold - Products	55
Reclassification of costs to Selling, general and administrative	262
Reclassification of costs to Research and development	51
	<u>\$ (4,624)</u>

Note 1 — Pursuant to the terms of the Company's credit facility, the pro forma annual interest was calculated using the one-month LIBOR plus the applicable margin on the \$196 million of net borrowing less the reduced commitment fees. In conjunction with the acquisition, the Company issued \$16 million of letters of credit under the Company's credit facility as guarantees for outstanding AS&E guarantees. The additional interest less commitments fees for the letters of credit issued were also included in the pro forma interest above. In the event that the Company had not used \$69 million of AS&E cash to pay down the revolving bank line of credit immediately following the acquisition, the pro forma interest expense would be increased by approximately \$1.4 million. If the actual interest rate differed from the interest used for the pro forma interest expense above by 1/8%, interest expense would increase or decrease by \$0.2 million.

R) *Provision (benefit) for income taxes* — To record the tax effect of pro forma adjustments at an estimated blended tax rate of 39%.

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