AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JUNE 13, 1997

REGISTRATION NO. 333-

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

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

CALIFORNIA	3674	33-0238801
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(PRIMARY STANDARD INDUSTRIAL CLASSIFICATION CODE NUMBER)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

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

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

COPIES TO:

ISTVAN BENKO, ESQ.	BERTRAM R. ZWEIG, ESQ.
TROY & GOULD PROFESSIONAL CORPORATION	JONES, DAY, REAVIS & POGUE
1801 CENTURY PARK EAST, SUITE 1600	555 WEST 5TH STREET, SUITE 4600
LOS ANGELES, CALIFORNIA 90067	LOS ANGELES, CALIFORNIA 90013-1025
TEL. (310) 553-4441	TEL. (213) 489-3939
FAX.(310) 201-4746	FAX. (213) 243-2539

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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TITLE OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE

Common Stock, no par value.....	4,255,000	$14.00	$59,570,000	$18,052

(1) Includes 555,000 shares of Common Stock issuable upon exercise of the Underwriters' over-allotment option.
(2) Estimated in accordance with Rule 457.

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

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

SUBJECT TO COMPLETION, DATED JUNE 13, 1997

[LOGO OF OPTO-SENSORS, INC.]

3,700,000 SHARES

COMMON STOCK

Of the 3,700,000 shares of Common Stock offered hereby, 3,330,000 shares are being sold by OSI Systems, Inc. (the "Company") and 370,000 shares are being sold by the Selling Shareholders. See "Principal and Selling Shareholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Shareholders. Prior to this Offering, there has been no public market for the Common Stock of the Company. See "Underwriting" for information relating to the method of determining the initial public offering price. The Company has made application for inclusion of the Common Stock on the Nasdaq National Market under the symbol "OSIS."

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

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

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

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

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

ROBERTSON, STEPHENS & COMPANY

WILLIAM BLAIR & COMPANY

VOLPE BROWN WHELAN & COMPANY

The date of this Prospectus is , 1997.

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

[PHOTOS OF]
[RAPISCAN 119]

[RAPISCAN 500 SERIES]

[RAPISCAN 500 SERIES
LARGE PALLET UNIT]

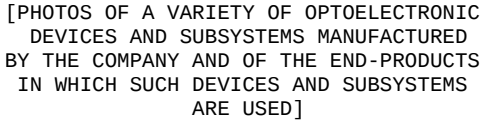
[RAPISCAN 500 SERIES
MOBILE UNIT]

[IMAGES OF INSPECTED BAGGAGE USING EPX SYSTEM]

[ART WORK]

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

[TWO PAGE GATEFOLD]



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

TABLE OF CONTENTS

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

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

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

PROSPECTUS SUMMARY

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

THE COMPANY

OSI Systems, Inc. (the "Company") is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for original equipment manufacturers ("OEMs") for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In the nine-month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to $31.7 million, or approximately 56.6%, of the Company's revenues, while revenues from sales of security and inspection products amounted to $24.3 million, or approximately 43.4%, of the Company's revenues.

Optoelectronic Devices and Subsystems

The Company manufactures a wide range of optoelectronic devices which it integrates into complex subsystems vital to various end products, including x-ray and computer tomography ("CT") imaging systems, industrial robotics, medical monitoring and diagnostic products, optical drives for computer peripherals, bar code scanners, and aviation gyroscopes. These optoelectronic devices operate by sensing light of varying wave lengths and converting the light into electronic signals. In addition to manufacturing optoelectronic devices, the Company produces optoelectronic subsystems and offers a range of vertically integrated services to its subsystem customers. These services include component design and customization, subsystem concept design and application engineering, product prototyping and development, pre-production, and short-run and high volume manufacturing. In the nine-month period ended March 31, 1997, the Company manufactured subsystems for use in more than 100 different applications, including those of approximately 50 major OEM customers such as Picker International, Honeywell Avionics, Eastman Kodak, Xerox, Johnson & Johnson, Bausch & Lomb, Texas Instruments, Boeing Aircraft Co. and Hewlett-Packard. During the nine-month period, no single OEM customer accounted for more than 10.0% of the Company's revenues and the top five customers collectively represented less than 20.0% of the Company's revenues.

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

Security and Inspection Products

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

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

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

The Company currently manufactures its optoelectronic devices and subsystems at facilities in Hawthorne, California, in Ocean Springs, Mississippi, in Johor Bahru, Malaysia, and in Horten, Norway. Its security and inspection products are currently manufactured at facilities in Crawley, England, in Long Beach, California, and in Johor Bahru, Malaysia. As of March 31, 1997 the Company marketed its products worldwide through approximately 44 sales and marketing employees located in five countries, and through approximately 95 independent sales representatives.

THE OFFERING

Common Stock Offered by the Company.	3,330,000 shares
Common Stock Offered by the Selling Shareholders.....	370,000 shares
Common Stock Outstanding after the Offering.....	9,458,874 shares(1)
Use of Proceeds.....	To repay certain indebtedness, to increase funds available for research and development, to enhance its sales and marketing capabilities, to pursue possible acquisitions, and for general corporate purposes, including working capital. See "Use of Proceeds."
Proposed Nasdaq National Market Symbol.....	OSIS

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(1) Based on the number of shares outstanding on May 31, 1997. Excludes: (i) approximately 864,986 shares of Common Stock issuable upon exercise of outstanding stock options at a weighted average exercise price of $7.32 per share; and (ii) up to 45,486 shares of Common Stock that may be issued after June 30, 1997 as additional consideration for the Company's purchase in November 1996 of certain minority shares of Rapiscan U.S.A. See "Certain Transactions."

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

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

	MARCH 31, 1997	
	ACTUAL	AS ADJUSTED(5)
CONSOLIDATED BALANCE SHEET DATA:		
Cash	$ 1,612	$33,027
Working capital	9,940	48,915
Total assets	44,314	75,729
Total debt	11,387	1,594
Total shareholders' equity	14,982	56,190

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

(2) Represents a non-recurring, non-cash charge resulting from the acceleration of the vesting periods of outstanding stock options having exercise prices below the fair market value on the date of grant. Exclusive of the non-cash charge, income from operations, net income, pro forma net income, and pro forma net income per share would have been $5,673,000, $3,448,000, $3,540,000 and $0.56, respectively.

(3) Gives effect to the conversion of certain subordinated debt into preferred stock and Common Stock in October and November 1996, and the issuance of Common Stock for the purchase of the remaining minority interests in certain subsidiaries in September and November 1996 as if such transactions occurred on July 1, 1995. Pro forma adjustments for the year ended June 30, 1996 and for each of the nine-month periods ended March 31, 1996 and 1997 consist of: (i) the elimination of interest expenses related to converted subordinated debt of $166,000, $125,000 and $92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of $117,000, $28,000 and $0, respectively.

(4) Assumes the conversion of 2,568,750 shares of preferred stock into 3,853,125 shares of Common Stock as of July 1, 1995.

(5) Adjusted to give effect to the sale of 3,330,000 shares of Common Stock

offered by the Company hereby, at an assumed initial public offering price of $13.50 per share and after deducting underwriting discounts, commissions and estimated Offering expenses, and the application of the net proceeds therefrom.

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

RISK FACTORS

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

FLUCTUATIONS IN QUARTERLY RESULTS

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

COMPETITION

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

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

LARGE ORDERS; LENGTHY SALES CYCLES

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

RAPID TECHNOLOGICAL CHANGE

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

AVAILABILITY OF RAW MATERIALS AND COMPONENTS

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

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

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

In fiscal 1995 and 1996 and in the nine-month period ended March 31, 1997, revenues from shipments made outside of the United States accounted for approximately 32.0%, 38.0% and 39.3%, respectively, of the Company's revenues. Of the revenues generated during fiscal 1996 from shipments made outside of the United States, 12.0% represented sales from the United States to foreign customers, and the balance represented sales generated by the Company's foreign subsidiaries. The Company anticipates that international sales will continue to account for a material portion of the Company's revenues and that, accordingly, a major portion of the Company's business will be exposed to the risks associated with conducting international business operations, including unexpected changes in regulatory requirements, changes in foreign control legislation, possible foreign currency controls, currency exchange rate fluctuations or devaluations, tariffs, difficulties in staffing and managing foreign operations, difficulties in obtaining and managing vendors and distributors, potentially negative tax consequences, and difficulties in collecting accounts receivable. The Company is also subject to risks associated with laws regulating the import and export of high technology products. The Company cannot predict whether quotas, duties, taxes or other charges or restrictions upon the importation or exportation of the Company's products will be implemented by the United States or any other country in the future. There can be no assurance that any of these factors will not have a material adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH MANAGING GROWTH AND ACQUISITIONS

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

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

PROPRIETARY TECHNOLOGY; PENDING LITIGATION

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

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

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

The Company believes it has meritorious defenses and claims in the lawsuit with Lunar and UAB. However, no assurance can be given that the Company will be successful in this lawsuit. In the event that the court determines that the accused products infringe the '688 patent and that Rapiscan U.S.A. and UDT Sensors do not have the right to use technology covered by the '688 patent, Rapiscan U.S.A. could be prevented from marketing most of its baggage scanner products in the United States and UDT Sensors could be prevented from marketing certain detector components. Rapiscan U.S.A. and UDT Sensors could also be required to pay a significant amount of damages. Any such outcome would have a material adverse effect upon the Company's business, financial condition and results of operations. The Company intends to vigorously pursue its legal remedies in this lawsuit. As a result, the Company will continue to expend significant financial and other resources in connection with this lawsuit. See "Business--Legal Proceedings."

The Company may from time to time in the future receive communications from third parties alleging infringements by the Company of patents or other intellectual property rights owned by such third parties. If any of the Company's products are found to infringe a patent, a court may grant an injunction to prevent the Company from making, selling or using these products in the applicable country. Protracted litigation may be necessary to defend the Company against alleged infringement of others' rights. Irrespective of the validity or the success of such claims, the defense of such claims could result in significant costs to the Company and the diversion of time and effort by management, either of which by itself could have a material adverse effect on the business, financial condition and results of operations of the Company. Further, adverse determinations in such litigation could subject the Company to significant liabilities (including treble damages under certain

circumstances), or prevent the Company from selling certain of its products. If infringement claims are asserted against the Company, the Company may be forced to seek to obtain a license of such third party's intellectual property rights. No assurance can be given that the Company could enter into such a license agreement on terms favorable to the Company, or at all. The failure to obtain such a license agreement on reasonable terms could have an adverse effect on the Company's business, financial condition and results of operations.

RISKS ASSOCIATED WITH MANUFACTURING

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

PRODUCT LIABILITY RISKS

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

DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent upon the continuing contributions of its key management, technical and product development personnel. In particular, the Company is dependent upon the services of Deepak Chopra, the Chairman of the Company's Board of Directors, its President and Chief Executive Officer. In addition, the loss of the services of any of the Company's other senior managerial, technical or product development personnel could materially adversely affect the Company's business, financial condition and results of operations. The Company has entered into a five-year employment agreement with Mr. Chopra and into shorter-term employment agreements with certain of the Company's senior managerial and technical personnel. The Company's future success depends on its continuing ability to attract, retain and motivate highly qualified managerial and technical personnel. Competition for qualified technical personnel is intense. There can be no assurance that these individuals will continue employment with the Company. The loss of certain key personnel could materially adversely affect the Company's business, financial condition and results of operations. See "Business--Employees" and "Management."

ENVIRONMENTAL REGULATION

The Company is subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling and disposal of certain hazardous substances and wastes used or generated in the manufacturing and assembly of the Company's products. Under such laws, the Company may become liable for the costs of removal or remediation of certain hazardous substances or wastes that have

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

CONCENTRATION OF OWNERSHIP; CONTROL BY MANAGEMENT

Upon successful completion of this Offering, the Company's principal shareholders, Scope Industries and Deepak Chopra, the President and Chief Executive Officer of the Company, will beneficially own approximately 18.3% and 16.2%, respectively, of the Company's Common Stock (17.4% and 14.3%, respectively, if the Underwriters' over-allotment option is exercised in full), and the present directors and executive officers of the Company (including Scope Industries, an affiliate of one of the directors) will, in the aggregate, beneficially own 40.9% of the outstanding Common Stock (36.9% if the Underwriters' over-allotment option is exercised in full). Meyer Luskin, the President, Chief Executive Officer, Chairman of the Board of Directors and principal shareholder of Scope Industries, is a director of the Company. Consequently, Scope Industries, together with the Company's directors and executive officers acting in concert, will have the ability to significantly affect the election of the Company's directors and have a significant effect on the outcome of corporate actions requiring shareholder approval. Such concentration may also have the effect of delaying or preventing a change of control of the Company. See "Principal and Selling Shareholders," and "Management."

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

The Company's Amended and Restated Articles of Incorporation authorize the Company's Board of Directors to issue up to 10,000,000 shares of preferred stock in one or more series, to fix the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued shares of preferred stock, to fix the number of shares constituting any such series, and to fix the designation of any such series, without further vote or action by its shareholders. The terms of any series of preferred stock, which may include priority claims to assets and dividends and special voting rights, could adversely affect the rights of the holders of Common Stock and thereby reduce the value of the Common Stock. The Company has no present plans to issue shares of preferred stock. The issuance of preferred stock, coupled with the concentration of ownership in the directors and executive officers, could discourage certain types of transactions involving an actual or potential change in control of the Company, including transactions in which

the holders of Common Stock might otherwise receive a premium for their shares over then current prices, otherwise dilute the rights of holders of Common Stock, and may limit the ability of such shareholders to cause or approve transactions which they may deem to be in their best interests, all of which could have a material adverse effect on the market price of the Common Stock offered hereby. See "Description of Capital Stock--Preferred Stock."

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

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

SHARES ELIGIBLE FOR FUTURE SALE

Sales of substantial amounts of Common Stock in the public market following this Offering could have an adverse effect on the market price of the Common Stock. Upon completion of this Offering, the Company will have outstanding approximately 9,458,874 shares of Common Stock, of which 3,700,000 shares offered hereby (4,255,000 shares if the Underwriters' over-allotment option is exercised in full), will be freely tradeable without restriction or further registration under the Securities Act. The remaining 5,758,874 shares of Common Stock outstanding upon completion of this Offering are "restricted securities" as that term is defined in Rule 144 promulgated under the Securities Act ("Rule 144"). Pursuant to lock-up agreements between certain securityholders and representatives of the Underwriters, the securityholders have agreed not to sell approximately 5,731,000 shares of Common Stock (including any additional shares issued upon the exercise of any options) for 180 days following the date of this Prospectus. However, beginning 180 days after the date of this Prospectus, subject in certain cases to the volume restrictions of Rule 144, all 5,758,874 shares will become freely transferable and available for immediate sale in the public market. The existence of a large number of shares eligible for future sale could have an adverse impact on the Company's ability to raise additional equity capital or on the price at which such equity capital could by raised.

LIMITATION ON OFFICERS' AND DIRECTORS' LIABILITIES UNDER CALIFORNIA LAW

The Company's Amended and Restated Articles of Incorporation provide that, pursuant to the California Corporations Code, the liability of the directors of the Company for monetary damages shall be eliminated to the fullest extent permissible under California law. This is intended to eliminate the personal liability of a director for monetary damages in an action brought by, or in the right of, the Company for breach of a director's duties to the Company or its shareholders. This provision does not eliminate the directors' fiduciary duty and does not apply for certain liabilities: (i) for acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (ii) for acts or omissions that a director believes to be contrary to the best interest of the Company or its shareholders or that involve the absence of good faith on the part of the director; (iii) for any transaction from which a director derived an improper personal benefit; (iv) for acts or omissions that show a reckless disregard for the director's duty to the Company or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director's duties, of a risk of serious injury to the Company or its shareholders; (v) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's duty to the Company or its shareholders; (vi) with respect to certain transactions or the approval of transactions in which a director has a material financial interest; and (vii) expressly imposed by statute for approval of certain improper distributions to shareholders or certain loans or guarantees. See "Management--Limitation on Directors' Liability."

USE OF PROCEEDS

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

The Company expects to use the net proceeds of this Offering to repay bank indebtedness, to increase the Company's research and development activities, to enhance its sales and marketing capabilities, to pursue possible acquisitions, and to increase the Company's funds available for general corporate purposes, including working capital purposes. Although a portion of the net proceeds may be used to pursue possible strategic acquisitions, the Company is not currently a party to any commitments or agreements, and is not currently involved in any negotiations with respect to any acquisitions. The Company intends to repay a total of approximately $9.8 million outstanding under various bank facilities as described below.

FACILITY	APPROXIMATE PRINCIPAL AMOUNT AT MARCH 31, 1997	RATE BASIS PER ANNUM(1)	RATE AT MARCH 31, 1997	MATURITY
Revolving Credit	$4,927,000	Variable rate plus 0.25%	8.75%	November 1998
Term Loan	2,500,000	Variable rate plus 0.50%	9.00%	March 2001
Revolving Credit	1,442,000	Variable rate plus 1.50%	10.00%	On demand
Term Loan	66,000	Variable rate plus 2.25%	10.75%	November 1997
Revolving Credit	354,000	Variable rate	6.65%	Evergreen
Term Loan	504,000	5.75%	5.75%	June 2001

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

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

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

DIVIDEND POLICY

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

CAPITALIZATION

The following table sets forth: (i) the actual short-term debt and capitalization of the Company as of March 31, 1997; (ii) the pro forma short-term debt and capitalization of the Company giving effect to the conversion of the Company's outstanding shares of preferred stock into 3,853,125 additional shares of Common Stock and the filing of the Amended and Restated Articles of Incorporation; and (iii) the pro forma capitalization as adjusted to give effect to the sale of the 3,330,000 shares of Common Stock offered by the Company hereby at an assumed initial public offering price of $13.50 per share and the application of the estimated net proceeds from the Offering.

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

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(1) Excludes 499,125 shares of Common Stock issuable upon exercise of outstanding stock options as of March 31, 1997 and up to 45,486 shares of Common Stock that may be issuable as additional consideration for the Company's purchase in November 1996 of certain minority shareholdings in Rapiscan U.S.A. See "Certain Transactions."

DILUTION

The net tangible book value of the Company at March 31, 1997 (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock), was $13,230,000 or $2.18 per share. Net tangible book value per share is determined by dividing the net tangible book value of the Company (total assets net of goodwill less total liabilities of the Company) by the number of shares of Common Stock outstanding (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock). After giving effect to the sale of 3,330,000 shares offered by the Company hereby at an assumed initial public offering price of $13.50 per share (after deduction of estimated underwriting discounts and commissions and estimated offering expenses), the pro forma net tangible book value of the Company as of March 31, 1997 would have been $54,438,000, or $5.80 per share. This represents an immediate increase in the net tangible book value of $3.62 per share to existing shareholders and an immediate dilution in pro forma net tangible book value of $7.70 per share to new investors. The following table illustrates this per share dilution:

Assumed initial public offering price		$13.50
Net tangible book value before Offering	$2.18	
Increase in net tangible book value attributable to this Offering	3.62	
Pro forma net tangible book value after Offering		5.80
Dilution to new investors		$ 7.70

The following table sets forth on a pro forma basis as of March 31, 1997, the number of shares of Common Stock purchased from the Company, the total consideration paid, and the average price per share paid by the existing shareholders and by purchasers of the shares of Common Stock offered hereby (giving effect to the conversion of preferred stock outstanding as of March 31, 1997 into 3,853,125 shares of Common Stock and assuming the sale of 3,330,000 shares by the Company at an assumed initial public offering price of $13.50 per share, before deduction of underwriting discounts and commissions and offering expenses):

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE
Existing shareholders	6,060,249	64.5%	$ 6,927,000	13.4%	$ 1.14
New public investors	3,330,000	35.5	44,955,000	86.6	$13.50
Total	9,390,249	100.0%	$51,882,000	100.0%	

The foregoing table does not take into effect the exercise of outstanding options to purchase 68,625 shares of Common Stock for $66,750 subsequent to March 31, 1997. As of the date of this Prospectus, there are outstanding options to purchase an aggregate of 864,986 of Common Stock at a weighted average exercise price of approximately $7.32 per share. In addition, the Company may be obligated to issue up to an additional 45,486 shares of Common Stock after June 30, 1997 as additional consideration for the Company's purchase in November 1996 of certain minority shares in Rapiscan U.S.A. To the extent that options are exercised or additional shares are issued, there will be further dilution to new investors. See "Management--Stock Option Plans" and "Certain Transactions."

SELECTED CONSOLIDATED FINANCIAL DATA

The following table sets forth for the periods and the dates indicated certain financial data which should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto included elsewhere herein. The statement of operations data for each of the three fiscal years in the period ended June 30, 1996 and for the nine months ended March 31, 1997, and the balance sheet data at June 30, 1995 and 1996 and March 31, 1997 are derived from the consolidated financial statements of the Company which have been audited by Deloitte & Touche, LLP, independent accountants, and are included elsewhere in this Prospectus. The statements of operations data for the years ended June 30, 1992 and 1993 and the balance sheet data at June 30, 1992, 1993, and 1994 are derived from audited financial statements not otherwise contained herein. The consolidated statement of operations data for the nine months ended March 31, 1996 are derived from unaudited financial statements of the Company included elsewhere herein. The unaudited financial statements have been prepared by the Company on a basis consistent with the Company's audited consolidated financial statements and, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the Company's results of operations for the period. The results of operations for the nine months ended March 31, 1997 are not necessarily indicative of future results.

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

	JUNE 30,					MARCH 31,
	1992	1993	1994	1995	1996	1997
	(In thousands)					
CONSOLIDATED BALANCE SHEET DATA:						
Cash	$ 546	$ 941	$ 625	$ 1,405	$ 581	$ 1,612
Working capital	3,728	3,852	2,280	12,117	6,044	9,940
Total assets	10,548	15,739	25,807	30,780	35,309	44,314
Total debt	6,090	6,882	11,140	14,113	15,462	11,387
Total shareholders' equity	1,677	2,256	3,128	4,951	7,194	14,982

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(1) Fiscal 1994 includes a one time charge of $1.5 million incurred in connection with the settlement of a governmental proceeding. See "Business--Legal Proceedings."
(2) Represents a non-recurring, non-cash charge resulting from the acceleration of the vesting periods of outstanding stock options having exercise prices below the fair market value on the date of grant.
(3) Gives effect to the conversion of certain subordinated debt into preferred stock and Common Stock in October and November 1996, and the issuance of Common Stock for the purchase of the remaining minority interests in certain subsidiaries in September and November 1996 as if such transactions occurred on July 1, 1995. Pro forma adjustments for the year ended June 30, 1996 and each of the nine-month periods ended March 31, 1996 and 1997 consist of: (i) the elimination of interest expenses related to converted subordinated debt of $166,000, $125,000 and $92,000, net of income taxes, respectively; and (ii) the elimination of the minority interest in the net loss of subsidiaries of $117,000, $28,000 and $0, respectively.
(4) Assumes the conversion of 2,568,750 shares of preferred stock into 3,853,125 shares of Common Stock as of July 1, 1995.

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

OVERVIEW

The Company is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value added subsystems for OEMs for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In the nine month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to $31.7 million, or approximately 56.6% of the Company's revenues, while revenues from sales of security and inspection products amounted to $24.3 million, or approximately 43.4% of the Company's revenues.

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

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

The Company engages in significant international operations. The Company currently manufactures its optoelectronic devices and subsystems at its facilities in Hawthorne, California, in Ocean Springs, Mississippi, in Johor Bahru, Malaysia, and in Horten, Norway. Its security and inspection products are manufactured at its facilities in Crawley, England, in Long Beach, California, and in Johor Bahru, Malaysia. The Company markets its products worldwide through approximately 44 sales and marketing employees located in five countries, and through approximately 95 independent sales representatives. Revenues from shipments made outside of the United States accounted for 32.0%, 38.0%, and 39.3% of revenues for the fiscal years 1995 and 1996 and for the nine months ended March 31, 1997, respectively. Information regarding the Company's operating income or loss and identifiable assets attributable to each of the Company's geographic areas is set forth in Note 14 in the Company's Consolidated Financial Statements.

The effective income tax rate for the Company for fiscal 1995, fiscal 1996 and the nine-month period ended March 31, 1997 was 26.6%, 34.2% and 25.1%, respectively. Certain products manufactured in the United States and sold overseas are sold through a Foreign Sales Corporation ("FSC") organized by the Company in 1990. Export sales made through the FSC are subject to federal tax advantages. If the tax advantages derived from sales made through the FSC and certain existing state and federal tax credits remain in effect, and if certain future foreign tax benefits are received as anticipated, the Company believes that its effective income tax rate will be below 32.0% during the next three fiscal years.

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

	YEAR ENDED JUNE 30,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
	(In thousands)				
Optoelectronic devices and subsystems	$34,729	$37,977	$45,007	$33,493	$36,228
(Inter-company eliminations)	(1,257)	(1,529)	(6,392)	(5,424)	(4,551)
Unaffiliated optoelectronic devices and subsystems	33,472	36,448	38,615	28,069	31,677
Security and inspection products	14,263	13,367	22,903	16,925	24,296
Total revenues	$47,735	$49,815	$61,518	$44,994	$55,973

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

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

RESULTS OF OPERATIONS

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

	YEAR ENDED JUNE 30,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	75.5	75.9	73.9	74.8	72.2
Gross profit	24.5	24.1	26.1	25.2	27.8
Operating expenses:					
Selling, general and administrative	16.7	15.3	15.9	15.0	14.6
Research and development	3.0	3.2	2.7	2.8	3.1
Stock option compensation	--	--	--	--	1.5
Total operating expenses	19.7	18.5	18.6	17.8	19.2
Income from operations	4.8	5.6	7.5	7.4	8.6
Interest expense	1.5	2.5	2.2	2.3	1.6
Income before income taxes and minority interest	3.3	3.1	5.3	5.1	7.0
Provision for income taxes	1.7	0.8	1.8	1.7	1.8
Income before minority interest	1.6	2.3	3.5	3.4	5.2
Minority interest	--	--	0.2	--	--
Net income	1.6%	2.3%	3.7%	3.4%	5.2%

COMPARISON OF THE NINE-MONTH PERIOD ENDED MARCH 31, 1997 TO THE NINE-MONTH PERIOD ENDED MARCH 31, 1996

Revenues. Revenues consist of sales of optoelectronic devices and subsystems as well as of security and inspection products. Revenues are recorded net of all intercompany eliminations. For the nine-month period ended March 31, 1997, revenues increased by $11.0 million, or 24.4%, to $56.0 million from $45.0 million in the comparable period ended March 31, 1996. Revenue from the sale of optoelectronic devices and subsystems, net of inter-company eliminations, increased by $3.6 million, or 12.9%, to $31.7 million from $28.1 million in the comparable period ended March 31, 1996. The increase was the result of increased orders from existing customers, particularly in the medical diagnostics industry, and the expansion of the Company's product base. Revenue from the sale of security and inspection products increased by $7.4 million, or 43.6%, to $24.3 million from $16.9 million in the comparable 1996 period. The increase was due mainly to the continued acceptance of the Rapiscan Series 500 EPX System, which was introduced in 1995, and growth in sales of the Rapiscan 119 tabletop model.

Gross Profit. Cost of goods sold consists of material, labor and manufacturing overhead. For the nine-month period ended March 31, 1997, gross profit increased by $4.2 million, or 37.3%, to $15.6 million from $11.4 in the comparable 1996 period. As a percentage of revenues, gross profit increased to 27.8% in the 1997 period from 25.2% in the comparable 1996 period. Gross margin increased as a result of the fact that fixed costs did not increase proportionally with the increase in revenues. In addition, gross profit improved as a result of the Company continuing to increase the production of product manufactured at its offshore facilities, thereby capitalizing on lower labor and other manufacturing costs.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of compensation paid to sales, marketing, and administrative personnel, professional service fees, and marketing expenses. For the nine-month period ended March 31, 1997, such expenses increased by $1.5 million, or 21.3%, to $8.2 million from $6.7 million in the comparable 1996 period. As a percentage of revenues, selling, general and administrative expenses decreased to 14.6% from 15.0%. The increase in expenses was due to increases in payroll expenses to support revenue growth as well as to increases in legal expenses.

Research and Development. Research and development expenses include research related to new product development and product enhancement expenditures. For the nine-month period ended March 31, 1997, such expenses increased by $457,000, or 35.7%, to $1.7 million from $1.3 million in the comparable 1996 period. As a percentage of revenues, research and development expenses increased to 3.1% from 2.8%. The increase was due primarily to continued enhancement of the Rapiscan Series 500 EPX System and efforts to develop products for cargo scanning. In addition, the Company expensed all research and development expenses in the 1997 period as incurred, whereas certain of such expenses related to software products, the technological feasibility of which had been established, were capitalized in the 1996 period.

Income from Operations. Income from operations for the nine-month period ended March 31, 1997 increased by $1.5 million, or 44.6%, to $4.8 million from $3.3 million for the comparable 1996 period. Excluding the non-recurring non-cash incentive compensation expense of $856,000 incurred in connection with the acceleration of the vesting period of stock options granted to certain employees during the 1997 period, income from operations increased by $2.3 million, or 70.3%, to $5.7 million from $3.3 million. As a percent of revenues, income from operations increased to 8.6% from 7.4%, and excluding the non-cash compensation expense referenced above, it would have increased to 10.1% from 7.4%.

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

Provision for Income Taxes. Provision for income taxes for the nine-month period ended March 31, 1997 increased by $196,000, or 24.9%, to $983,000 from $787,000 during the comparable 1996 period. As a percentage of income before provision for income taxes and minority interest, provision for income taxes decreased to 25.1% from 34.2% in the comparable 1996 period. The decrease was a result of increases in the Company's export sales through its FSC, which has the effect of reducing the tax rate on revenues from foreign sales made from the United States, and the increased utilization of research and development and certain state tax credits. In addition, the Company has made the California Waters Edge election under California tax law, which has the effect of exempting its foreign subsidiaries from California taxes through fiscal 2003.

Net Income. For the reasons outlined above, net income for the nine-month period ended March 31, 1997, increased $1.4 million, or 89.8%, to $2.9 million from $1.5 million in the comparable 1996 period. Excluding the non-cash compensation charge described above, net income would have increased by $1.9 million, or 123%, to $3.4 million from $1.5 million in the comparable 1996 period.

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

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

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

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

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

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

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

Provision for Income Taxes. Provision for income taxes increased by $698,000, or 169%, to $1.1 million from $413,000 in fiscal 1995. As a percentage of income before provision for income taxes and minority interest, provision for income taxes increased to 34.2% in fiscal 1996 from 26.6% for the prior fiscal year. The increase resulted primarily from a reduction in certain state income tax credits, the repeal of the federal research and development credits, and a lower tax benefit from the Company's FSC in fiscal 1996.

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

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

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

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

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

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

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

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

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

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

QUARTERLY RESULTS OF OPERATIONS

The following table sets forth certain statement of operations data for the eleven consecutive quarters in the period ended March 31, 1997. This data is unaudited but, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of this information in accordance with generally accepted accounting principles. The operating results for any quarter are not necessarily indicative of results for any future period or for the entire fiscal year.

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations primarily through cash provided by operations and through various term loans, discounting facilities, and revolving credit lines extended to its different subsidiaries worldwide. As of March 31, 1997, the Company's principal sources of liquidity consisted of $1.6 million in cash and several credit agreements described below.

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

Net cash used in investing activities was $1.7 million and $2.2 million in the nine-month period ended March 31, 1997 and fiscal 1996, respectively, in each case due primarily to purchases of property and equipment in the amount of approximately $1.5 million and $1.6 million, respectively. The Company expects to spend approximately $2.0 million for purchases of property

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

Net cash used in financing activities for the nine-month period ended March 31, 1997 was $2.4 million due primarily to the repayment of debt. Net cash provided by financing activities in fiscal 1996 was $1.4 million due to increases in borrowings under the Company's lines of credit. The Company intends to use a portion of the net proceeds of this Offering to repay the amounts outstanding under the Company's lines of credit.

In January 1997, OSI Systems, Inc. and its three U.S. subsidiaries entered into a credit agreement with Sanwa Bank California. The agreement provides for a $10.0 million line of credit, which includes revolving, letter of credit, acceptance and foreign exchange facilities. In addition, the Company has a $1.0 million equipment line of credit for capital purchases. At the borrowers' election, advances under both lines of credit bear interest at a rate equal to a variable bank reference rate plus 0.25% per annum or, at the Company's option, at a fixed rate above LIBOR. At the borrowers' election, advances under the equipment purchase facility bear interest at a variable bank reference rate plus 0.25% per annum or a fixed rate quoted by the bank. The agreement also provides for a term loan in a maximum amount of $2.5 million to refinance existing indebtedness. At the borrowers' election, the term loan may bear interest at a fixed or variable rate, as quoted by the bank. As of March 31, 1997, there was outstanding approximately $4.9 million under the $10.0 million line of credit, $2.5 million under the term loan, and approximately $154,000 under the letter of credit facility. As of March 31, 1997, there were no outstanding borrowings under the equipment line. Borrowings under the agreement are secured by liens on substantially all of the Company's assets. The agreement restricts the four borrowers from incurring certain additional indebtedness. In addition, the credit agreement requires that the Company maintain (on a consolidated basis) certain financial ratios and levels of tangible net worth and also prohibits OSI Systems, Inc. and these subsidiaries from making capital expenditures greater than $1.8 million in the U.S. in any fiscal year.

In November 1996, OSI Systems, Inc. and its three U.S. subsidiaries entered into an agreement with Wells Fargo HSBC Trade Bank, N.A. Under the agreement Wells Fargo will provide the four borrowers with a revolving credit line of up to a maximum of $5.0 million to be used to pay obligations incurred in connection with export orders. The revolving credit lines bear interest at the bank's prime rate plus 0.25% per annum and are due in full with all interest on October 27, 1997. As of March 31, 1997, no amounts were outstanding under the facility. The agreement also provides for a letter of credit sub-facility up to an aggregate maximum of $4.0 million to be used for standby letters of credit in support of bid and performance bonds associated with specific foreign contracts, of which $2.0 million was used as of March 31, 1997. The facility terminates on October 27, 1997. Borrowings under the agreement are secured by liens on certain of the Company's assets. The agreement prohibits the Company from paying any dividends and restricts OSI Systems, Inc. and these subsidiaries from making capital expenditures greater than $1.8 million in the U.S. in any fiscal year.

In December 1996, Midland Bank plc agreed to provide certain banking facilities to Rapiscan UK under two agreements. Under the first agreement, Midland agreed to provide Rapiscan UK with a pound sterling overdraft, maximum amount of 1.2 million pounds sterling (approximately $2.0 million at March 31, 1997) outstanding at any one time, which amounts are secured by certain assets of Rapiscan UK. Outstanding borrowings will bear interest at a base rate plus 2.00% per annum. The second agreement provides for a 750,000 pound sterling (approximately $1.2 million as of March 31, 1997) facility for purchase of accounts receivable at 1.85% over a base rate and a 500,000 pound sterling (approximately $820,000 as of March 31, 1997) facility for tender and performance bonds. These facilities are secured by certain assets of Rapiscan UK and OSI Systems, Inc. has guarantied Rapiscan UK's obligations under the performance bond facility. As of March 31, 1997, no amounts were outstanding under the line of credit and $134,000 was outstanding under the performance bond facility. The above facilities expire in December and November 1997, respectively.

OSI Singapore has a loan agreement with Indian Bank (Singapore), which provides for an accounts receivable discounting facility for borrowings of up to 2.6 million Singapore dollars (approximately $1.8 million at March 31, 1997). The agreement also provides for a term loan with borrowings of 434,000 Singapore dollars (approximately $300,000 at March 31, 1997). Borrowings under the line of credit bear interest at the bank's prime rate plus 1.50%. The line of credit is terminable at any time. As of March 31, 1997 there was approximately $1.4 million outstanding under the line of credit and approximately $66,000 was outstanding under the term loan. Borrowings under the line of credit are collateralized by certain assets of OSI Singapore. The borrowings under this line are guarantied by Messrs. Chopra, Mehra and Hickman, officers of the Company. Borrowings secured by intercompany receivables are guarantied by OSI Systems, Inc.

AME has a loan agreement with Christiania Bank OG Kreditkasse which provides for a revolving line of credit for borrowings of up to 5.0 million Norwegian krone (approximately $741,000 at March 31, 1997), of which $354,000 was outstanding as of March 31, 1997. Borrowings under the line of credit bear interest at an annual variable rate of 6.65%. The agreement also provides for a term loan which matures in June 2001 and bears interest at an annual rate of 5.75%. At March 31, 1997 outstanding term loan borrowings totalled approximately 3.4 million Norwegian krone (approximately $504,000).

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

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

FOREIGN CURRENCY TRANSLATION

The accounts of the Company's operations in Singapore, Malaysia, England and Norway are maintained in Singapore dollars, Malaysian ringgits, U.K. pounds sterling and Norwegian krone, respectively. Foreign currency financial statements are translated into U.S. dollars at current rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of shareholder's equity. Transaction (losses) gains of approximately ($19,000), $76,000, ($123,000), ($21,000), and $9,000 were included in income for fiscal 1994, 1995 and 1996 and for the nine-month period ended March 31, 1996 and 1997.

INFLATION

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

GENERAL

The Company is a vertically integrated worldwide provider of devices, subsystems and end-products based on optoelectronic technology. The Company designs and manufactures optoelectronic devices and value-added subsystems for OEMs for use in a broad range of applications, including security, medical diagnostics, telecommunications, office automation, aerospace, computer peripherals and industrial automation. In addition, the Company utilizes its optoelectronic technology and design capabilities to manufacture security and inspection products that it markets worldwide to end users under the "Rapiscan" brand name. These products are used to inspect baggage, cargo and other objects for weapons, explosives, drugs and other contraband. In the nine month period ended March 31, 1997, revenues from the sale of optoelectronic devices and subsystems amounted to $31.7 million, or approximately 56.6%, of the Company's revenues, while revenues from sales of security and inspection products amounted to $24.3 million, or approximately 43.4% of the Company's revenues.

INDUSTRY OVERVIEW

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

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

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

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

In the 1970s, principally in response to civilian airline hijackings, the U.S. Federal Aviation Administration ("FAA") established security standards by setting guidelines for the screening of carry-on baggage for weapons such as guns and knives. These standards were later mandated by the United Nations

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

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

GROWTH STRATEGY

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

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

Further Penetrate Existing Security and Inspection Markets and Expand into Other Markets. For the nine-month period ended March 31, 1997, approximately 28.4% of the Company's security and inspection products were sold to airports or airlines for security purposes, with the remainder of these products being sold to other facilities for both security and nonsecurity related purposes. The Company intends to continue to expand its sales and marketing efforts both domestically and internationally to capitalize on opportunities in its existing markets for new installations as well as on opportunities to replace, service and upgrade existing security installations. In addition, through research and development and selective acquisitions, the Company intends to enhance and expand its current product offering to better address new applications including automatic bomb detection and cargo scanning. The Company believes that this strategy will enable it to take advantage of the growth its existing markets are experiencing and to benefit from additional growth that these new and enhanced products will provide. The Company believes that sales of its security and inspection products at locations other than at airports will constitute an increasingly larger portion of its sales in the future.

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

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

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

PRODUCTS AND TECHNOLOGY

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

Discrete Devices and Subsystems. Optoelectronic devices generally consist of both active and passive components. Active components sense light of varying wavelengths and convert the light detected into electronic signals, whereas passive components amplify, separate or reflect light. Active components manufactured by the Company consist of silicon photodiodes and hybrid photodetectors. Passive components include lenses, prisms, filters, mirrors and other precision optical products that are used by the Company in the manufacture of its optoelectronic products or are sold to others for use in telescopes, laser printers, copiers, microscopes and other detection and vision equipment. The devices manufactured by the Company are both standard products and products customized for specific applications. Most of the devices manufactured by the Company are incorporated by it into the subsystems that it manufactures. The Company does, however, also sell its discrete devices separately to OEMs. Direct sales of devices to third parties constituted less than 10.0% of the Company's revenues in the nine-month period ended March 31, 1997.

In addition to the manufacture of discrete devices, the Company also specializes in designing and manufacturing customized optoelectronic subsystems for use in a wide range of products and equipment. An optoelectronic subsystem typically consists of one or more optoelectronic devices that are combined with other

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

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

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

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

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

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

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

In addition to its x-ray security and inspection products, the Company also markets three models of an archway walk-through metal detector and two models of a hand-held metal detector. These products are used to detect metal weapons such as guns and knives and are installed at airports and other locations, including prisons and schools. During the nine-month period ended March 31, 1997, sales of the walk-through and hand-held metal detectors constituted 1.8% of the Company's revenues.

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

MARKETS, CUSTOMERS AND APPLICATIONS

Optoelectronic Devices and Subsystems. The Company's optoelectronic devices and subsystems are used in a broad range of products by a variety of customers. The following chart illustrates, for the twelve-month period ended March 31, 1997: (i) the major product categories for which the Company provided optoelectronic products; (ii) the percentage of revenues from the sale of optoelectronic devices and subsystems related to such categories; (iii) certain customers ("Major Customers") in each such category who purchased more than $100,000 of optoelectronic products; and (iv) the total number of Major Customers in each such category. The Company expects that the list of product categories, the amount of business derived from each such product category, and the composition of its major customers will vary from period to period.

PRODUCT CATEGORY	PERCENTAGE OF OPTOELECTRONIC SALES	REPRESENTATIVE MAJOR CUSTOMERS	APPROXIMATE NUMBER OF MAJOR CUSTOMERS
Computed Tomography and X-Ray Imaging	22.7%	Picker International Hologic, Inc. InVision Technologies	7
Aerospace and Avionics	12.0%	Kearfott Guidance Honeywell Avionics Litton Systems	9
Medical Monitoring	9.5%	Datascope BioChem International Criticare Systems	11
Analytical and Medical Diagnostics Equipment	6.7%	Johnson & Johnson Leica Bausch & Lomb	10
Office Automation and Computer Peripherals	6.3%	Xerox Eastman Kodak Hewlett-Packard	6
Construction, Robotics and Industrial Automation	4.9%	3M Spectra Physics Baumer Electric	8
Military/Defense and Weapons Simulations	3.3%	Lockheed Martin (Loral) Hughes (HDOS) Texas Instruments	5
Colorometry and Particle Analyzers	1.2%	Coulter Electronics CILAS Accuracy Microsensors	3
Bar Code Scanners	1.1%	Symbol Technologies Intermec	2
Gaming Industry	1.1%	Bally Gaming Dixie Narco	2

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

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

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

MARKETING, SALES AND SERVICE

The Company markets and sells its optoelectronic devices and subsystems worldwide through both a direct sales and marketing staff of 23 employees and indirectly through a network of approximately 25 independent sales representatives and distributors. Most of the in-house sales staff is based in the United States while most of the independent sales representatives and distributors are located abroad. Since the acquisition of AME in March 1997, the Company's marketing efforts in Europe have been conducted through AME's sales and marketing staff and through a network of approximately four independent sales representatives. The Company markets and sells its security and inspection products worldwide through a direct sales and marketing staff of approximately 21 employees located in the United States, the United Kingdom, Dubai, and Malaysia and through a network of over 70 independent sales representatives. Following this Offering, the Company intends to expand its direct sales force.

The Company's optoelectronic products sales staff located in the United States and Norway is supported by an applications engineering group whose members are available to provide technical support. This support includes designing applications, providing custom tooling and process integration, defining solutions for customers and developing products that meet customer defined specifications. The security and inspection products sales staff is supported by a service organization of approximately 25 persons located primarily in the United States, the United Kingdom and Malaysia. The Company also supports these sales and customer relations efforts by providing operator training, computerized training and testing equipment, in-country service, software upgrades, service training for customer technicians and a newsletter on security issues.

The Company considers its maintenance service operations to be an important element of its business. After the expiration of the standard one-year product warranty period, the Company is often engaged by its customers to provide maintenance services for its security and inspection products through annual maintenance contracts. The Company believes that its international maintenance service capabilities give it a competitive advantage in selling its security and inspection products. Furthermore, the Company believes that as its installed base of security and inspection products increases, revenues generated from such annual maintenance service contracts and from the sale of replacement parts will increase. In fiscal 1996, and for the nine-month period ended March 31, 1997, maintenance service revenues and replacement part sales collectively represented 3.3% and 3.1%, respectively, of the Company's revenues.

RESEARCH AND DEVELOPMENT

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

In addition to close collaboration with the Company's customers in the design and development of optoelectronics-based products, the Company maintains an active program for the development and introduction of new products and enhancements and improvements to its existing products, including the implementation of new applications of its technology. The Company seeks to further develop its research and development program and considers such program to be an important element of its business and operations. As of March 31, 1997, in addition to the engineers that the Company employed in manufacturing, process design and applications development, the Company engaged approximately 32 full-time engineers and technicians in research and development. During the fiscal 1994, 1995, 1996 and nine-month period ended March 31, 1997, the Company's research and development expenses were approximately $1.5 million, $1.6 million, $1.7 million and $1.7 million, respectively. In order to fulfill its strategy of increasing its security and inspection product lines and of enhancing the capabilities of its existing products, the Company intends to increase its research and development efforts in the future.

MANUFACTURING AND MATERIALS MANAGEMENT

The Company currently has manufacturing facilities in the United Kingdom, Malaysia and Norway in addition to its manufacturing facilities in Hawthorne, California, Long Beach, California, and Ocean Springs, Mississippi. The Company's principal manufacturing facility is in Hawthorne, California. However, most of the Company's high volume, labor intensive manufacturing and assembly is generally performed at its facilities in Malaysia. Since most of the Company's customers currently are located in Europe, Asia and the United States, the Company's ability to assemble its products in these markets and provide follow-on service from offices located in these regions is an important component of the Company's global strategy.

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

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

experienced any significant shortages or material delays in obtaining any of its raw materials or subcomponents, there can be no assurance that the Company will not face such shortages or delays in one or more of these materials in the future. See "Risk Factors--Availability of Raw Materials and Components."

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

ENVIRONMENTAL REGULATIONS

The Company is subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling, and disposal of certain hazardous substances and wastes used or generated in the manufacturing and assembly of the Company's products. Under such laws, the Company may become liable for the costs of removal or remediation of certain hazardous substances that have been or are being released on or in its facilities or that have been or are being disposed of off site as wastes. Such laws may impose liability without regard to whether the Company knew of, or caused, the release of such hazardous substances. In the past, the Company has conducted a Phase I environmental assessment report for each of the properties in the United States at which it currently manufactures products. The purpose of each such report was to identify, as of the date of that report, potential sources of contamination of the property. In certain cases, the Company has received a Phase II environmental assessment report consisting of further soil testing and other investigations deemed appropriate by an independent environmental consultant. The Company believes that it is currently in compliance with all material environmental regulations in connection with its manufacturing operations, and that it has obtained all environmental permits necessary to conduct its business. The amount of hazardous substances and wastes produced and generated by the Company may increase in the future depending on changes in the Company's operations. Any failure by the Company to comply with present or future regulations could subject the Company to the imposition of substantial fines, suspension of production, alteration of manufacturing process or cessation of operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. For a discussion of the risks imposed upon the Company's business by environmental regulations, see "Risk Factors--Environmental Regulation."

COMPETITION

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

In the optoelectronic device and subsystem market, competition is based primarily on such factors as expertise in the design and development of optoelectronic devices, product quality, timeliness of delivery, price, customer technical support, and on the ability to provide fully integrated services from application development and design through volume subsystem production. The Company believes that its major competitors in the optoelectronic device and subsystem market are EG&G Electro-Optics, a division of EG&G, Inc., Optek Technology Inc., Hamamatsu Corporation, and Honeywell Optoelectronics, a division of Honeywell, Inc. Because the Company specializes in custom subsystems requiring a high degree of

engineering expertise, the Company believes that it generally does not compete to any significant degree with any other large United States, European or Far Eastern manufacturers of standard optoelectronic components.

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

BACKLOG

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

At March 31, 1997, the Company's backlog products totalled approximately $57.7 million, compared to approximately $27.5 million at March 31, 1996. Substantially all of the Company's backlog as of March 31, 1997 is expected to be shipped during the fiscal year ending June 30, 1998. Any failure of the Company to meet an agreed upon schedule could lead to the cancellation of the related order. Variations in the size of the order, the product mix, and delivery requirements of the customer order may result in substantial fluctuations in backlog from period to period. Backlog as of any particular date should not be relied upon as indicative of the Company's revenues for any future period and cannot be considered a meaningful indicator of the Company's performance on an annual or quarterly basis.

EMPLOYEES

As of March 31, 1997, the Company employed approximately 730 people, of whom 570 were employed in manufacturing, 32 in research and development, 62 in finance and administration, 44 in sales and marketing, and 25 in its service organization. Of the total employees, approximately 470 were employed in the United States, 100 were employed in Europe, 160 were employed in Asia, and one employee was employed in the Middle East. Nine employees at AME are members of a union and have collective bargaining rights. Other than the employees of AME, none of the Company's other employees are unionized. There has never been a work stoppage or strike at the Company, and management believes that its relations with its employees are good.

FACILITIES

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

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

The Company believes its facilities are in good condition and are adequate to support its operations for the foreseeable future.

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

LEGAL PROCEEDINGS

OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors are currently involved in litigation with Lunar Corporation ("Lunar") and The University of Alabama Research Foundation ("UAB") pertaining to United States Patent No. 4,626,688 ("'688 patent") and related nonpatent claims. UAB owns the '688 patent and granted Lunar an exclusive license thereunder.

On January 8, 1997, Lunar asserted that Rapiscan U.S.A.'s baggage scanners which used dual energy detectors infringe the '688 patent. On January 21, 1997, Rapiscan U.S.A. filed suit against Lunar in the United States District Court for the Central District of California. Rapiscan U.S.A. seeks a judicial declaration that the '688 patent is not infringed and is invalid, that Lunar is estopped from asserting the '688 patent against Rapiscan U.S.A., that Lunar's claim is barred or limited by laches, and that Rapiscan U.S.A. has acquired an implied license under the '688 patent. Rapiscan U.S.A. also asserts breach of an oral agreement, promissory estoppel and quantum meruit regarding Lunar's breach of an agreement whereby Lunar would compensate Rapiscan U.S.A. for assisting Lunar in its enforcement of the '688 patent. Rapiscan U.S.A. also asserts fraud

against Lunar for Lunar asserting that Rapiscan U.S.A. infringed its patent after Lunar accepted litigation assistance from Rapiscan U.S.A. and represented to Rapiscan U.S.A. that Rapiscan U.S.A. and UDT Sensors did not infringe its patent. Rapiscan U.S.A. seeks compensatory damages exceeding $100,000 and punitive damages.

On January 23, 1997, Lunar and UAB filed suit against OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors in the United States District Court for the Western District of Wisconsin. Lunar and UAB asserted patent infringement, contributory infringement and inducement thereof. Lunar and UAB sought damages in an unspecified amount and an injunction preventing OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors from further making, using, selling and offering for sale products including the dual energy detector covered by the '688 patent. On April 21, 1997, the Western District of Wisconsin transferred that action to the Central District of California. Lunar and UAB have now counterclaimed in the Central District of California against OSI Systems, Inc., Rapiscan U.S.A. and UDT Sensors for the same claims previously pending in Wisconsin. The Company believes it has meritorious defenses and claims in the above-described action and intends to vigorously pursue its legal remedies in this lawsuit.

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

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

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

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

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

MANAGEMENT

EXECUTIVE OFFICERS AND DIRECTORS

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

NAME	AGE	POSITION
Deepak Chopra.....	46	Chairman of the Board, Chief Executive Officer and President
Ajay Mehra.....	34	Vice President, Chief Financial Officer, Secretary and Director
Andreas F. Kotowski...	42	President of U.S. Operations, Rapiscan U.S.A.
Manoocher Mansouri Aliabadi.....	41	Vice President - Corporate Marketing, UDT Sensors
Anthony S. Crane.....	43	Managing Director, Rapiscan UK
Thomas K. Hickman.....	55	Managing Director, OSI Singapore and OSI Malaysia
Steven C. Good(1).....	54	Director
Meyer Luskin(1).....	71	Director
Madan G. Syal(1).....	70	Director

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(1) Member of Audit Committee and Compensation Committee

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

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

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

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

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

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

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

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

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

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

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

Each non-employee Director currently receives a cash fee of $1,250 per Board meeting attended and an additional $1,250 per Board committee meeting attended if such committee meeting is held on a day different from that of the Board meeting. During the fiscal year ended June 30, 1996, each non-employee Director received, as additional director compensation, options to purchase 11,250 shares of Common Stock at an exercise price of $2.00 per share. The Directors are reimbursed for expenses incurred in connection with the performance of their services as Directors.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended June 30, 1996, all of the outside Directors, Steven C. Good, Meyer Luskin and Madan G. Syal, served on the Board's compensation committee. Certain transactions between the Company and the members of the compensation committee include the following: Mr. Good is a senior partner of Good Swartz & Berns, an accounting firm that provided services to the Company. The Good Swartz & Berns Pension Fund, in which Mr. Good participates, exercised certain warrants to purchase stock of the Company by applying the outstanding principal amount under certain promissory notes issued to the pension fund by the Company. Mr. Luskin is the President, Chief Executive Officer and Chairman of Scope Industries which provided consultation services to the Company for a fee in the amount of $100,000. Scope Industries also exercised certain warrants to purchase stock of the Company by applying the outstanding principal amount under a promissory note issued by the Company to Scope Industries. Mr. Syal owns Pro Printers, a printing service company that provides printing services to the Company. For additional information regarding these direct or indirect transactions between the outside Directors, see "Certain Transactions." Mr. Syal is the father-in-law of Deepak Chopra, the President, Chief Executive Officer and Chairman of the Company.

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

EXECUTIVE COMPENSATION

The following table sets forth certain compensation earned during the fiscal year ended June 30, 1996, by the Company's Chief Executive Officer and the four other most highly compensated executive officers whose total salary and bonus during such year exceeded $100,000 (collectively, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	ANNUAL COMPENSATION SALARY	ANNUAL COMPENSATION BONUS	LONG TERM COMPENSATION SECURITIES UNDERLYING OPTIONS (#)
Deepak Chopra(1)..... Chief Executive Officer	$317,107	$25,000	0
Ajay Mehra ..... Chief Financial Officer	150,342	8,000	0
Andreas F. Kotowski .... President of U.S. Operation, Rapiscan U.S.A.	113,357	0	0
Manoocher Mansouri Aliabadi..... Vice President-- Corporate Marketing, UDT Sensors	95,075	5,000	0
Thomas K. Hickman ..... Managing Director, OSI Malaysia and OSI Singapore	125,466	0	15,000

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

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

The Company has also entered into employment agreements with Ajay Mehra, Andreas F. Kotowski, Manoocher Mansouri Aliabadi and Thomas K. Hickman, each of which became effective on April 1, 1997. The terms of the employment agreements with Messrs. Mehra, Kotowski, Mansouri and Hickman are for three, two, two and one years, respectively. The employment agreements provide for base salaries of $200,000, $140,000, $120,000 and $125,000 per year, for Messrs. Mehra, Kotowski, Mansouri and Hickman, respectively, with annual raises to be determined by the Company's Chief Executive Officer. The Company has also entered into a one-year employment agreement with Anthony S. Crane, the Managing Director of Rapiscan UK. Pursuant to these employment agreements, Messrs. Mehra, Kotowski, Mansouri, Hickman and Crane are also eligible for certain bonus payments and to participate in incentive compensation and other employee benefit plans established by the Company from time to time. Each of the employment agreements contains confidentiality provisions and provides that the employee shall assign and the Company shall be entitled to any inventions or other proprietary rights developed by the employee under certain circumstances during his employment.

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

The management of the Company allocates bonuses to officers and employees of the Company under a bonus plan that has been in effect since the Company's inception. The amount of bonus for each officer or employee is determined by comparing the profits of the subsidiary or division in which such person performed services against the budget profit goals for such subsidiary or division as determined before the start of the fiscal year. Bonuses were distributed to over 100 officers and employees in August 1996 based on their performances during the fiscal year ended June 30, 1996.

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

OPTION GRANTS IN LAST FISCAL YEAR

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SHARE)	EXPIRATION DATE	POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1) 5% ($)	10% ($)
Thomas K. Hickman(2)....	15,000	87.0%	2.50	6/3/01	$ 10,361	$ 22,894

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(1) Sets forth potential option gains based on assumed annualized rates of stock price appreciation from the exercise price at the date of grant of 5.0% and 10.0% (compounded annually) over the full term of the grant with appreciation determined as of the expiration date. The 5.0% and 10.0% assumed rates of appreciation are mandated by the rules of the Securities and Exchange Commission, and do not represent the Company's estimate or projection of future Common Stock prices.
(2) This grant was made in June 1996. One half of the total number of options granted was exercisable on the first anniversary of the grant date; one quarter is exercisable on each of the second and third anniversary dates.

Option Exercises and Fiscal Year-End Values. The following table sets forth certain information regarding option exercises by the Named Executive Officers during the fiscal year 1996 and held by them on June 30, 1996:

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

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

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

STOCK OPTION PLANS

1987 Incentive Stock Option Plan. In May 1987, the Board of Directors adopted the Incentive Stock Option Plan (the "1987 Plan"). The 1987 Plan provides for the grant of options to directors, officers and other key employees of the Company to purchase up to an aggregate of 1,050,000 shares of Common Stock. The purpose of the 1987 Plan is to provide participants with incentives which will encourage them to acquire a proprietary interest in, and continue to provide services to, the Company. The 1987 Plan is administered by the Board of Directors which has discretion to select optionees and to establish the terms and conditions of each option, subject to the provisions of the 1987 Plan. Pursuant to the 1987 Plan, the Company has from time to time granted its directors, officers and employees options to purchase shares of the Company's Common Stock at exercise prices determined by the Board of Directors. The stock options generally expire either on the fifth or tenth anniversary of the date of grant of the option. All stock options are non-transferrable by the grantee and may be exercised only by the optionee during his service to the Company as a director, officer or employee. The aggregate number of options issuable under the 1987 Plan, number of options outstanding and the exercise price thereof are subject to adjustment in the case of certain transactions such as mergers, recapitalizations, stock splits or stock dividends. As of May 31, 1997, 384,375 shares had been issued upon the exercise of stock options under the 1987 Plan, stock options to purchase an aggregate of 430,500 shares were outstanding under the 1987 Plan at exercise prices ranging from $0.17 to $3.33 per share, and 235,125 shares remained available for grant. As of such date, stock options to purchase 381,188 shares of Common Stock were exercisable. No stock options may be granted under the 1987 Plan after December 31, 1998.

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

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

In May 1997, the Board of Directors of the Company authorized grants of options to purchase 434,486 shares of Common Stock available for issuance under the 1997 Plan to certain directors, officers and

employees of the Company. Of these options, 125,000 are exercisable at a price of $13.50 per share and 309,486 are exercisable at $11.50 per share. The options generally will be subject to vesting and will become exercisable over a period of four years from the date of grant, subject to the optionee's continuing employment with the Company.

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

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

EMPLOYEE BENEFIT PLAN, PENSION PLANS

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

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

LIMITATION ON DIRECTORS' LIABILITY

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

certain liabilities that may arise by reason of their status or service as directors and officers and allows the Company to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified.

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

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

CERTAIN TRANSACTIONS

In 1993, the Company formed Rapiscan U.S.A. for the purpose of acquiring most of the capital stock of Rapiscan UK. As of October 1996, the Company owned 85.5% of the outstanding capital stock of Rapiscan U.S.A., and 14.5% (the "Option Shares") was owned by executive officers or employees of the Company, including Ajay Mehra, Andreas F. Kotowski, Anthony S. Crane and Thomas K. Hickman. See "Management--Executive Officers and Directors." In connection with the formation of Rapiscan U.S.A., the Company was granted an option to purchase all of the Option Shares. In November 1996, the Company exercised its option to acquire the Option Shares. The aggregate consideration paid for the Option Shares consisted of the following: (i) the issuance of a total of 159,201 shares of Common Stock valued at $6.67 per share; (ii) the issuance of options to purchase a total of 45,486 shares of Common Stock at a purchase price of $11.50 per share; and (iii) an agreement by the Company to issue to the holders of the Option Shares up to 45,486 additional shares of Common Stock based on the net income before taxes of Rapiscan U.S.A. and Rapiscan UK combined for the fiscal year ending June 30, 1997. The number of shares to be issued after June 30, 1997 cannot yet be accurately established.

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

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

During fiscal 1995, fiscal 1996 and the nine-month period ended March 31, 1997, all amounts outstanding under the promissory notes were either paid in full by the Company to the note holders or applied towards the exercise of the related warrants or conversion rights at the election of the note holders. The Company paid in cash the outstanding principal amount of $530,000 and all interest due thereon to one principal shareholder, Sally F. Chamberlain, in satisfaction of the promissory notes held by her personally and as trustee of the Edward P. Fleischer and Sally F. Fleischer Family Trust. The other Related Parties elected to exercise their warrants and conversion rights by purchasing the Company's capital stock with the outstanding principal amounts of their promissory notes. As a result, certain Related Parties who were collectively owed $2,710,000 under the promissory notes, were issued an aggregate of 2,030,358 shares of Common Stock in lieu of the repayment of the principal amount of their promissory notes. Other Related Parties included Scope Industries, Ajay Mehra, members of Mr. Mehra's family, members of Mr. Chopra's family, and the Good Swartz & Berns Pension Fund. Scope Industries is a principal shareholder of the Company, and Meyer Luskin is a director of the Company and is the President, director and a major shareholder of Scope Industries. Steve C. Good is a director of the Company and a participant in the Good Swartz & Berns Pension Fund.

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

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

From time to time the Company contracts for automobile rental and messenger services from a business that is owned by Deepak Chopra and his wife. The Company paid the business approximately $83,000 for such services during fiscal 1996 and approximately $87,000 for such services during the nine-month period ended March 31, 1997. The Company also contracts for printing services from a business owned by Madan G. Syal, a director of the Company. The Company paid the business approximately $63,000 for such services during fiscal 1996 and approximately $64,000 for such services during the nine-month period ended March 31, 1997.

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

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth the beneficial ownership of Common Stock as of May 31, 1997, and as adjusted to reflect the sale of Common Stock offered hereby (assuming no exercise of the Underwriters' over-allotment option), by: (i) each person known by the Company to beneficially own 5.0% or more of the outstanding shares of Common Stock; (ii) each director of the Company; (iii) each Named Executive Officer of the Company; (iv) the Selling Shareholders; and (v) all directors and executive officers of the Company as a group. Footnotes (2) and (3) to the table also set forth certain information with respect to the beneficial ownership of the Selling Shareholders, assuming the Underwriters exercise their over-allotment option in full. The information set forth in the table and accompanying footnotes has been furnished by the named beneficial owners.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)			SHARES BENEFICIALLY OWNED AFTER OFFERING(1)(3)	
NAME AND BENEFICIAL OWNERS	NUMBER	PERCENT	NUMBER OF SHARES BEING OFFERED(2)	NUMBER	PERCENT
Scope Industries(4)(5).....	1,875,000	30.6%	148,148	1,726,852	18.3%
Sally F. Chamberlain(6)(7).....	1,170,375	19.1	47,593	1,122,782	11.9
Deepak Chopra(6)(8).....	1,539,484	25.0	0	1,539,484	16.2
Ajay Mehra(9).....	193,413	3.1	0	193,413	2.0
Andreas F. Kotowski(10).....	110,852	1.8	0	110,852	1.2
Manoocher Mansouri Aliabadi(11).	73,607	1.2	0	73,607	*
Thomas K. Hickman(12).....	27,000	*	0	27,000	*
Steven C. Good(13).....	40,500	*	21,896	18,604	*
Madan G. Syal(14).....	241,125	3.9	25,926	215,199	2.3
Meyer Luskin(15).....	20,625	*	0	20,625	*
Good Swartz & Berns Pension Fund(16).....	148,125	2.4	3,000	145,125	1.5
Leila and Birender Mehra.....	25,500	*	3,704	21,796	*
Zev and Elaine Edelstein Trust..	77,679	1.3	9,259	68,420	*
Mohinder and Ranjana Chopra.....	75,000	1.2	9,259	65,741	*
Glenn P. Sorenson.....	75,000	1.2	9,259	65,741	*
Charles and Kiran M. Kerpelman..	65,357	1.1	9,259	56,098	*
Martha B. Holmes.....	60,000	*	9,259	50,741	*
Taheri and Durriya Rangwala.....	45,000	*	7,407	37,593	*
Cynthia G. Fleischer.....	15,750	*	15,750	0	--
Gary F. Fleischer.....	14,625	*	14,625	0	--
Cathleen A. Fleischer.....	14,625	*	14,625	0	--
Mark and Penny Berns Trust.....	9,732	*	5,982	3,750	*
Arnold and Hope Anisgarten.....	9,287	*	5,709	3,578	*
Rajiv Mehra.....	1,607	*	450	1,157	*
Surendra and Kala Jain(17).....	13,393	*	5,186	8,207	*
Renu Jivrajka.....	11,250	*	1,852	9,398	*
Amita Jivrajka.....	7,500	*	1,852	5,648	*
All executive officers and directors as a group (9 persons).....	2,259,106	35.9	47,822	2,211,284	23.0

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* Less than 1.0%.

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of Common Stock subject to options currently exercisable, or exercisable within 60 days of May 31, 1997, are deemed outstanding for computing the percentage of the person holding such options but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote and subject to community property laws where applicable, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them.

(2) Excludes shares of Common Stock to be offered by the Selling Shareholders if the over-allotment option granted to the Underwriters is exercised. The following Selling Shareholders will sell the following number of additional shares of Common Stock if the Underwriters' over-allotment option is exercised in full: Scope Industries (79,260); Sally F. Chamberlain (49,630); Deepak Chopra (185,185); Ajay Mehra (33,333); Andreas F. Kotowski (18,519); Manoocher Mansouri Aliabadi (14,815); Thomas K. Hickman (3,704); Steven C. Good (15,604); Madan G. Syal (18,519); Meyer Luskin (9,259); Good Swartz & Berns Pension Fund (3,309); Leila and Birender Mehra (3,704); Zev and Elaine Edelstein Trust (9,259); Mohinder and Ranjana Chopra (11,111); Glenn P. Sorenson (11,111); Charles and Kiran M. Kerpelman (9,259); Martha B. Holmes (9,259); Taheri and Durriya Rangwala (7,407); Susan Sutherland (7,407); Anuj Wadhawan (7,407); Bette Moore (7,407); Robert Kephart (5,556); Phillip M. Wascher (7,407); Charan Dewan (3,704); Jack Kimbro (1,111); Narayan Taneja (1,481); Dennis Noble (741); Peter Bui (741); Allan J. and Pamela Barnard (1,481); Christine Williams (741); Christopher Chin (926); Anthony S. and Suzie B. Crane (1,481); Khai Li (741); Mark and Penny Berns Trust (1,518); Arnold and Hope Anisgarten (1,791); Surendra and Kala Jain (5,926); Neil Jivrajka (740); Renu Jivrajka (1,482); Amita Jivrajka (1,482); Louis S. and Linda O. Peters (741); Lincoln Gladden (741). Susan Sutherland, Anuj Wadhawan, Bette Moore, Robert Kephart, Phillip M. Wascher, Charan Dewan, Jack Kimbro, Narayan Taneja, Dennis Noble, Peter Bui, Allan J. Barnard, Christine Williams, Christopher Chin, Khai Li, Louis Peters and Lincoln Gladden are employees of the Company or its affiliates. Anthony S. Crane is the Managing Director of Rapiscan UK. See "Management."

(3) Assuming the Underwriters' over-allotment option is exercised in full, the number and percent of the shares beneficially owned after the Offering by the Selling Shareholders will be as follows: Scope Industries (1,647,592, 17.4%); Sally F. Chamberlain (1,073,152, 11.3%); Deepak Chopra (1,354,299, 14.3%); Ajay Mehra (160,080, 1.7%); Andreas F. Kotowski (92,333); Manoocher Mansouri Aliabadi (58,792); Thomas K. Hickman (23,296); Steven C. Good (3,000); Madan G. Syal (196,680, 2.1%); Good Swartz & Berns Pension Fund (141,816, 1.5%); Leila and Birender Mehra (18,092); Zev and Elaine Edelstein Trust (59,161); Mohinder and Ranjana Chopra (54,630); Glenn P. Sorenson (54,630); Charles and Kiran M. Kerpelman (46,839); Martha B. Holmes (41,482); Taheri and Durriya Rangwala (30,186); Susan Sutherland (35,343); Anuj Wadhawan (29,835); Bette Moore (28,218); Robert Kephart (22,944); Phillip M. Wascher (19,593); Charan Dewan (16,171); Jack Kimbro (15,389); Narayan Taneja (23,698); Dennis Noble (11,446); Peter Bui (7,884); Allan J. and Pamela Barnard (8,382); Christine Williams (6,384); Christopher Chin (6,199); Anthony S. and Suzie B. Crane (11,019); Khai Li (8,409); Mark and Penny Berns Trust (2,232); Arnold and Hope Anisgarten (1,787); Surendra and Kala Jain (2,281); Neil Jivrajka (10,510); Renu Jivrajka (7,916); Amita Jivrajka (4,166); Louis S. and Linda O. Peters (6,510); Lincoln Gladden (4,134). Except as otherwise indicated in this footnote the percentage of Common Stock beneficially owned by the Selling Shareholders after this Offering if the over-allotment option is exercised in full is less than 1.0% for each person listed in this footnote.

(4) The address of Scope Industries is 233 Wilshire Boulevard, Suite 310, Santa Monica, California 90401.

(5) Does not include shares beneficially owned by Meyer Luskin. Mr. Luskin is the President, Chief Executive Officer, Chairman of the Board and a principal shareholder of Scope Industries.

(6) The address of such shareholder is c\\o OSI Systems, Inc., 12525 Chadron Avenue, Hawthorne, California 90250.

(7) Such shares are held by Sally F. Chamberlain as Trustee of the Edward P. Fleischer and Sally F. Fleischer Family Trust dated June 3, 1991.

(8) Includes 254,951 shares and 254,951 shares owned by The Deepika Chopra Trust UDT dated July 17, 1987 and The Chandini Chopra Trust UDT dated July 17, 1987, respectively. Deepak Chopra is the co-trustee of both irrevocable trusts. Also includes 10,179 shares and 10,179 shares owned by Deepika Chopra and Chandini Chopra, respectively, who are the daughters of Mr. Chopra. Of the balance of such shares, 960,099 shares are held jointly by Mr. Chopra and his wife, Nandini Chopra, and 49,125 shares are held individually by Mr. Chopra. 37,500 shares of the 49,125 shares are issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Chopra is the President, Chief Executive Officer and Chairman of the Board of the Company. See "Management."

(9) Includes 75,000 shares issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Mehra is the Vice President, Chief Financial Officer, Secretary and Director of the Company. See "Management."

(10) Includes 7,500 shares issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Kotowski is the President of U.S. Operations of Rapiscan U.S.A. See "Management."

(11) Includes 13,500 shares issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Mansouri is the Vice President-Corporate Marketing of UDT Sensors. See "Management."

(12) Includes 15,187 shares issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Hickman is the Managing Director of OSI Singapore and OSI Malaysia. See "Management."

(13) Includes 22,500 shares held by the Steve Cary Good & Bari Anne Good Trust and 18,000 shares held individually by Mr. Good. Does not include shares beneficially owned by the Good Swartz & Berns Pension Fund. Mr. Good is a Director of the Company. See "Management."

(14) Includes 217,500 shares held jointly by Mr. Syal and his wife, Mohini Syal. Mr. Syal is a Director of the Company. See "Management."
(15) Includes 15,000 shares held by the Meyer and Doreen Luskin Family Trust. Does not include shares beneficially owned by Scope Industries. Includes 5,625 shares issuable pursuant to options exercisable within 60 days of May 31, 1997. Mr. Luskin is the President, Chief Executive Officer, Chairman of the Board and a principal shareholder of Scope Industries.
(16) Does not include shares beneficially owned by Steven C. Good.
(17) Includes 6,429 shares held by Surendra Jain M.D. Inc.

DESCRIPTION OF CAPITAL STOCK

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

COMMON STOCK

As of May 31, 1997, 6,128,874 shares of Common Stock were outstanding, held of record by 73 shareholders. After completion of the Offering, there will be 9,458,874 shares of Common Stock outstanding.

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

PREFERRED STOCK

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

STOCK TRANSFER AGENT AND REGISTRAR

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

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this Offering, the Company will have 9,458,874 shares of Common Stock outstanding (assuming no exercise of stock options after May 31, 1997). Of these shares, the 3,700,000 shares sold in this Offering (4,255,000 shares if the Underwriters' over-allotment option is exercised in full) will be freely tradeable without restriction or registration under the Securities Act unless they are purchased by "affiliates" of the Company as that term is defined under Rule 144. The remaining 5,758,874 shares will be "restricted securities" as defined in Rule 144 ("Restricted Shares"). Of such Restricted Shares, approximately 5,731,000 Restricted Shares (or approximately 5,176,000 if the Underwriters' over-allotment option is exercised in full) are subject to lock-up agreements with the Underwriters. See "Underwriting."

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

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) who has beneficially owned Restricted Shares for at least one year is entitled to sell, within any three-month period, a number of shares that does not exceed the greater of 1.0% of the then outstanding shares of the Company's Common Stock (approximately 94,589 shares immediately after this Offering) or the average weekly trading volume during the four calendar weeks preceding such sale. Sales under Rule 144 are also subject to certain requirements as to the manner of sale, notice and availability of current public information about the Company. A person who is not an affiliate, has not been an affiliate within three months prior to the sale and has beneficially owned the Restricted Shares for at least two years is entitled to sell such shares under Rule 144(k) without regard to any of the limitations described above.

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

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

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

UNDERWRITING

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

UNDERWRITER	NUMBER OF SHARES
Robertson, Stephens & Company LLC	
William Blair & Company, L.L.C	
Volpe Brown Whelan & Company, LLC	
Total	3,700,000

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

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

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

Pursuant to the terms of certain lock-up agreements, officers and directors of the Company, the Selling Shareholders and certain other shareholders holding collectively approximately 5,731,000 shares of the Company's Common Stock outstanding prior to the Offering, have agreed with the Representatives that except for the 3,700,000 shares being offered in this Offering, or the shares sold pursuant to the over-allotment option, without the prior written consent of Robertson, Stephens & Company LLC or as a gift or distribution to one who agrees to be bound by these restrictions, until 180 days after the effective date of this Prospectus (the "lock-up period"), they will not offer to sell, contract to sell or otherwise dispose of any shares of Common Stock, including shares issuable under options or warrants exercisable during the 180 days after the date of this Prospectus, any options or warrants to purchase shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock owned directly by such holders or with respect to which they have the power of disposition. Approximately 5,731,000 shares of Common Stock subject to the lock-up agreements will become eligible for immediate public sale following expiration of the lock-up period, subject to the provisions of the Securities Act and the Rules promulgated thereunder. Robertson, Stephens & Company LLC may, in its sole discretion, and at any time without notice, release all or a portion of the securities subject to the lock-up agreements. See "Shares Eligible for Future Sale." In addition, the Company

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

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

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

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

LEGAL MATTERS

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

EXPERTS

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

ADDITIONAL INFORMATION

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

OSI SYSTEMS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT AUDITORS

OSI Systems, Inc.:

We have audited the accompanying consolidated balance sheets of OSI Systems, Inc. (the "Company") and its subsidiaries as of March 31, 1997 and June 30, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity, and cash flows for the nine months ended March 31, 1997 and the years ended June 30, 1996, 1995 and 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of OSI Systems, Inc. and its subsidiaries as of March 31, 1997 and June 30, 1996 and 1995, and the results of their operations and their cash flows for the nine months ended March 31, 1997 and the years ended June 30, 1996, 1995 and 1994 in conformity with generally accepted accounting principles.

Deloitte & Touche llp

Los Angeles, California
June 12, 1997

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	JUNE 30,		MARCH 31,
	1995	1996	1997
ASSETS (NOTE 4)			
Current Assets:			
Cash	$ 1,405	$ 581	$ 1,612
Accounts receivable, net of allowance for doubtful accounts of $53, $276 and $294 at June 30, 1995, June 30, 1996 and March 31, 1997, respectively (Note 1)	12,841	13,295	15,450
Other receivables (Note 2)	589	783	1,643
Inventory (Note 1)	10,069	13,642	15,472
Prepaid expenses	388	633	665
Deferred income taxes (Notes 1 and 7)	490	700	1,127
Total current assets	25,782	29,634	35,969
Property and Equipment, Net (Notes 1 and 4):	4,257	4,454	5,654
Intangible and Other Assets, Net (Notes 1, 2 and 3)	741	1,221	2,691
Total	$30,780	$35,309	$44,314
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Bank lines of credit (Note 4)	$ 1,452	$ 7,783	$ 6,723
Current portion of long-term debt (Note 6 and 13)	1,232	1,491	1,601
Current portion of senior subordinated debt (Note 5)		2,500	
Accounts payable	6,402	6,522	7,665
Accrued payroll and related expenses	960	1,667	1,587
Income taxes payable	147	799	1,759
Advances from customers	36	219	2,733
Other accrued expenses and current liabilities	3,436	2,609	3,961
Total current liabilities	13,665	23,590	26,029
Bank Line of Credit (Note 4)	4,829		
Senior Subordinated Debt (Note 5)	3,075	575	
Long-Term Debt (Note 6 and 13)	3,525	3,113	3,063
Deferred Income Taxes (Notes 1 and 7)	629	827	240
Minority Interest (Note 1)	106	10	
Total liabilities	25,829	28,115	29,332
Commitments and Contingencies (Notes 8 and 13)			
Shareholders' Equity (Notes 4, 5, 9 and 10):			
Preferred stock, voting shares, no par value; authorized, 3,000,000 shares; issued and outstanding, 1,318,750 shares at June 30, 1995 and 1996 and 2,568,750 shares at March 31, 1997 (Note 10)	1,514	1,514	4,014
Common stock, no par value; authorized, 4,500,000 shares; issued and outstanding, 1,842,007, 1,858,132 and 2,207,124 shares at June 30, 1995 and 1996 and March 31, 1997, respectively	543	560	2,913
Retained earnings	2,735	4,994	7,928
Cumulative foreign currency translation adjustment (Note 1)	159	126	127
Total shareholders' equity	4,951	7,194	14,982
Total	$30,780	$35,309	$44,314

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

	YEAR ENDED JUNE 30,			NINE MONTHS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
				(Unaudited)	
Revenues	$47,735	$49,815	$ 61,518	$ 44,994	$ 55,973
Cost of goods sold	36,037	37,818	45,486	33,638	40,380
Gross profit	11,698	11,997	16,032	11,356	15,593
Operating expenses:					
Selling, general and administrative expenses (Note 11 and 12)	7,974	7,601	9,757	6,745	8,183
Research and development (Note 1)	1,451	1,591	1,663	1,280	1,737
Stock option compensation (Note 9)					856
Total operating expenses	9,425	9,192	11,420	8,025	10,776
Income from operations	2,273	2,805	4,612	3,331	4,817
Interest expense (Notes 4, 5, 6 and 11)	710	1,251	1,359	1,026	900
Income before provision for income taxes and minority interest	1,563	1,554	3,253	2,305	3,917
Provision for income taxes (Notes 1 and 7)	814	413	1,111	787	983
Income before minority interest in net loss of subsidiaries	749	1,141	2,142	1,518	2,934
Minority interest in net loss of subsidiaries (Note 1)	38	17	117	28	--
Net income	$ 787	$ 1,158	$ 2,259	$ 1,546	$ 2,934
Historical net income			$ 2,259	$ 1,546	$ 2,934
Interest on subordinated debt, net of income taxes			166	125	92
Minority interest in net loss of subsidiaries			(117)	(28)	--
Pro forma net income			$ 2,308	$ 1,643	$ 3,026
Pro forma net income per share (Note 1)			$ 0.37	$ 0.26	$ 0.48
Weighted average common shares used in the calculation of pro forma net income per share			6,308,126	6,304,158	6,327,234

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

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

	PREFERRED		COMMON			CUMULATIVE FOREIGN CURRENCY	
	NUMBER OF SHARES	AMOUNT	NUMBER OF SHARES	AMOUNT	RETAINED EARNINGS	TRANSLATION ADJUSTMENT	TOTAL
BALANCE, JULY 1, 1993...	1,123,750	$1,124	1,628,257	$ 335	$ 790	$ 6	$ 2,255
Exercise of stock options.....	--	--	75,000	28	--	--	28
Translation adjustment.....	--	--	--	--	--	58	58
Net income.....	--	--	--	--	787	--	787
BALANCE, JUNE 30, 1994..	1,123,750	1,124	1,703,257	363	1,577	64	3,128
Exercise of stock options.....	35,000	70	60,000	75	--	--	145
Conversion of debt....	160,000	320	78,750	105	--	--	425
Translation adjustment.....	--	--	--	--	--	95	95
Net income.....	--	--	--	--	1,158	--	1,158
BALANCE, JUNE 30, 1995..	1,318,750	1,514	1,842,007	543	2,735	159	4,951
Exercise of stock options.....	--	--	16,125	17	--	--	17
Translation adjustment.....	--	--	--	--	--	(33)	(33)
Net income.....	--	--	--	--	2,259	--	2,259
BALANCE, JUNE 30, 1996..	1,318,750	1,514	1,858,132	560	4,994	126	7,194
Exercise of stock options.....	--	--	49,500	79	--	--	79
Conversion of debt....	1,250,000	2,500	120,536	225	--	--	2,725
Minority interest acquisitions.....	--	--	178,956	1,193	--	--	1,193
Stock option compensation.....	--	--	--	856	--	--	856
Translation adjustment.....	--	--	--	--	--	1	1
Net income.....	--	--	--	--	2,934	--	2,934
BALANCE, MARCH 31, 1997.	2,568,750	$4,014	2,207,124	$2,913	$7,928	$127	$14,982

See accompanying notes to consolidated financial statements.

OSI SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

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

changes on cash.....	58	95	(36)	--	4
Net (decrease) increase in cash.....	(316)	780	(824)	(785)	1,031
Cash, beginning of period.....	941	625	1,405	1,405	581
Cash, end of period.....	$ 625	$11,405	$ 581	$ 620	$ 1,612
Supplemental disclosures of cash flow information--Cash paid during the period for:					
Interest.....	$ 691	$ 1,229	$ 1,346	$ 992	$ 902
Income taxes.....	$ 620	$ 82	$ 377	$ 368	$ 1,261

See accompanying notes to consolidated financial statements.

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SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:

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

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

During the nine months ended March 31, 1997, certain related parties converted $225 and $2,500 of senior subordinated debt into 120,536 and 1,250,000 shares of common and preferred stock, respectively.

During the nine months ended March 31, 1997, the Company acquired the minority interest of its two majority-owned subsidiaries through the issuance of 178,956 shares of common stock. The excess of the fair value of the common stock of $1,193 over the book value of the minority interests of $12 has been recorded as goodwill.

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

Fair value of assets acquired	$2,350
Goodwill	588
Cash paid for the capital stock	(370)
Liability incurred	(546)
Liabilities assumed	$2,022

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Consolidation -- The consolidated financial statements include the accounts of OSI Systems, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. In September and November 1996 the Company purchased the minority interests of its two majority-owned subsidiaries by exchanging 178,956 shares of common stock for the minority shares of the subsidiaries. The excess of the fair value of the common stock issued of $1,193,000 over the carrying value of the minority interest of $12,000 has been recorded as goodwill and is being amortized over a period of 20 years. The Company also agreed to issue additional shares of the Company's common stock to the selling shareholders of one of the subsidiaries. The number of shares, if any, to be issued is based upon the net income of the subsidiary for the year ended June 30, 1997, not to exceed 45,486 shares.

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

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

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

Inventory at June 30, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

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

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

Property and equipment at June 30, 1995 and 1996 and March 31, 1997 consisted of the following (in thousands):

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

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

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

Goodwill in the amount of $1,181,000 resulting from the acquisition of minority interests and $588,000 resulting from the acquisition of Advanced Micro Electronics AS (see Note 3) is being amortized, on a straight-line basis, over a period of twenty years.

Software development costs incurred in the research and development of software products are expensed as incurred until the technological feasibility of the product has been established. After technological feasibility is established, certain software development costs are capitalized. The software, once developed, is a component which is included in X-ray security machines when they are sold to customers. The Company amortizes these costs on a straight-line basis over a two-year period. No software development costs were capitalized during the nine months ended March 31, 1997.

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

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

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

Foreign Currency Translation -- The accounts of the Company's operations in Singapore, Malaysia, Norway and the United Kingdom are maintained in Singapore dollars, Malaysian ringgits, Norwegian Krone and U.K. pounds sterling, respectively. Foreign currency financial statements are translated into U.S. dollars at current rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. Gains and losses resulting from foreign currency transactions are included in income, while those resulting from translation of financial statements are excluded from income and accumulated as a component of shareholders' equity. Transaction (losses) gains of approximately ($19,000), $76,000, ($123,000), ($21,000), and $9,000 were included in income for the years ended June 30, 1994, 1995, and 1996 and for the nine months ended March 31, 1996, (unaudited) and 1997, respectively.

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

Pro forma earnings per share information is computed using the weighted average number of shares of common stock outstanding and dilutive common equivalent shares from convertible debt and stock options using the treasury stock method. Pursuant to Securities and Exchange Commission Staff Accounting Bulletin Topic 4D, common stock and stock options issued or granted during the twelve month period prior to the date of the initial filing of the Company's Form S-1 Registration Statement have been included in the calculation of the pro forma weighted average number of common and common equivalent shares using the treasury stock method as if they were outstanding for each period for which pro forma earnings per share is presented.

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

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

2. INVESTMENT IN JOINT VENTURE

In January 1995, the Company, together with an unrelated company, formed ECIL-Rapiscan Security Products Limited, a joint venture organized under the laws of India. The Company, the Company's chairman and the Company's chief financial officer have a 36.0%, 10.5% and 4.5% ownership interest, respectively, in the joint venture. The Company's investment of approximately $108,000 at March 31, 1997 is included in other assets in the accompanying financial statements and the Company's equity in the earnings of the joint venture, since its inception, have been insignificant.

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

During the year ended June 30, 1995 and the nine months ended March 31, 1997, the Company earned a technical fee from the joint venture in the amount of $200,000 and $115,000, respectively. At March 31, 1997, $100,000 was unpaid and included in other receivables in the accompanying consolidated financial statements.

3. ACQUISITIONS

On March 3, 1997, the Company acquired the capital stock of Advanced Micro Electronics AS ("AME") headquartered in Horten, Norway, from Industriinvestor ASA. The purchase price of $916,000 consisted of cash of $370,000 with the balance of $546,000 payable by June 15, 1997. The acquisition has been accounted for by the purchase method of accounting, and accordingly, the purchase price has been allocated to the assets acquired of $2,350,000, and liabilities assumed of $2,022,000, based on the estimated fair values of the assets and liabilities at the date of acquisition. The excess of the purchase price over the fair value of net assets acquired is being amortized over a period of 20 years.

The results of operations of AME are included in the Company's consolidated financial statements from the date of acquisition. Had the acquisition occurred as of July 1, 1993, pro forma consolidated sales for the years ended June 30, 1994, 1995 and 1996 and for the nine months ended March 31, 1996 (unaudited) and 1997 would have been $50,735,000, $53,338,000, $65,371,000, $47,827,000 and $58,557,000, respectively. Consolidated pro forma net income and net income per share would not have been materially different than the amounts reported for the respective periods.

4. BANK AGREEMENTS

At June 30, 1995 and 1996 and March 31, 1997, line of credit borrowings consisted of the following (in thousands):

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

The Company maintains a senior loan agreement with a U.S. bank, which provides for a $10,000,000 revolving line of credit, a $2,500,000 term loan, a $1,000,000 equipment line and a $1,500,000 stock purchase facility (see Note 6). Total borrowings under the agreement are not to exceed $15,000,000. Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at March 31, 1997) plus .25% or, at the Company's option, at 2.25% above the LIBOR rate for specific advances and terms. Interest is payable monthly, and the line expires in November 1998. Borrowings under the senior loan agreement are collateralized by substantially all of the assets of the Company. The agreement also provides a commitment for letters of credit up to $10,000,000 not to exceed the available balance under the line of credit. At March 31, 1997 approximately $154,000 was issued and outstanding under letters of credit.

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

The Company has a credit agreement with a U.S. bank, which provides for a $5,000,000 revolving line of credit and a $4,000,000 letter of credit sub-facility. Total borrowings under the agreement may not exceed $5,000,000. Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at March 31, 1997) plus .25%. Interest is payable monthly, and the line expires in October 1997. Borrowings under the current agreement are secured by certain of the Company's assets. No amounts were outstanding under this agreement at March 31, 1997. The agreement also provides a commitment for letters of credit up to $5,000,000. At March 31, 1997 approximately $1,997,000 was issued and outstanding under letters of credit.

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

Opto Sensors Pte. Ltd. ("OSP") has a loan agreement with a Singapore bank, which provides for revolving line of credit borrowings up to 2,600,000 Singapore dollars (approximately $1,800,000 at March 31, 1997). The agreement also has a term note feature providing for borrowings up to approximately $300,000 (see Note 6). Borrowings under the line of credit bear interest at the bank's prime rate (8.5% at March 31, 1997) plus 1.5%. Interest is payable monthly, and borrowings are due on demand. Borrowings under the line of credit are collateralized by certain OSP assets and are guaranteed by the Company and certain officers of the Company.

AME has a loan agreement with a Norwegian bank, which provides for revolving line of credit borrowings up to 5,000,000 Norwegian Krone (approximately $741,000 at March 31, 1997). Borrowings under the line of credit bear interest at a variable rate, which was 6.65% at March 31, 1997. Interest is payable quarterly. The loan agreement has no expiration date. Borrowings under the line of credit are collateralized by certain AME assets.

A subsidiary has loan agreements with a U.K. bank, which provide for overdraft borrowings of up to 1,250,000 pound sterling (approximately $2,050,000 at March 31, 1997), line of credit borrowings up to 750,000 pound sterling (approximately $1,230,000 at March 31, 1997) and a 500,000 pound sterling (approximately $820,000 at March 31, 1997) borrowing facility for tender and performance bonds. Borrowings under the overdraft facility bear interest at a base rate (6.0% at March 31, 1997) plus 2%. Borrowings under the line of credit bear interest at the base rate plus 1.85%. Interest is payable monthly. Borrowings under this agreement are secured by certain assets of the subsidiary and are guaranteed by the Company. Approximately $134,000 was outstanding under performance bonds at March 31, 1997.

A subsidiary has a loan agreement with a Malaysian bank, which provides for revolving line of credit borrowings up to 2,500,000 Malaysian ringgits (approximately $1,000,000 at March 31, 1997) for performance bonds and standby letter of credits. This line expires in October 1997. No amounts were outstanding under this agreement at March 31, 1997.

5. SENIOR SUBORDINATED DEBT

The Company has issued convertible notes payable to non affiliates and certain related parties. Under the terms of the various agreements, certain debt contained nondetachable warrants to convert the related debt into shares of the Company's preferred stock at $2.00 per share. Certain other notes provided for the conversion of the debt into shares of the Company's preferred stock at $2.80 per share at the option of the holder. The remaining debt, at the option of the holder, provided for conversion of the debt into shares of the Company's common stock at $1.87 per share. During the nine months ended March 31, 1997, all of the debt outstanding under the various agreements was repaid or converted as summarized in the following table (in thousands):

	JUNE 30,		MARCH 31,
	1995	1996	1997
Convertible note payable to a related party, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on April 24, 1997 converted into 1,250,000 shares of preferred stock on November 27, 1996	$2,500	$2,500	$--
Convertible notes payable, (including $50,000 to a related party) interest due quarterly at a bank'sprime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998, paid in full as of October 28, 1996	350	350	--
Convertible notes payable to directors, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998, converted into 26,786 shares of common stock on October 31, 1996	50	50	--
Convertible notes payable, interest due quarterly at a bank's prime rate (8.25% at June 30, 1996) plus 1.5%, principal due on February 19, 1998 converted into 93,750 shares of common stock on October 31, 1996	175	175	--
Total senior subordinated debt	3,075	3,075	--
Less current portion	--	2,500	--
Total long-term portion	$3,075	$ 575	$--

6. LONG-TERM DEBT

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

	JUNE 30,		MARCH 31,
	1995	1996	1997
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in monthly installments of $52,083. The term loan was repaid in January 1997....	$2,240	$1,667	--
Term loan payable to a bank, interest due mothly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in equal monthly installments of $16,666. The term loan was repaid in January 1997....	950	750	--
Equipment line note payable to a bank, interest due monthly at the bank's prime rate (8.25% at June 30, 1996) plus 0.25%, principal due in monthly installments of $11,623. The term loan was repaid in January 1997.....	--	511	--
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.5% at March 31, 1997) plus 0.50%, principal due in monthly installments of $52,083 until paid in full on March 31, 2001.....	--	--	$2,500
Term loan payable to a Norwegian bank, interest due quarterly at a rate of 5.75% principal due in monthly installments of $12,148 until paid in full on June 1, 2001.....	--	--	504
Term loan payable, interest accrued monthly at 8.00%, paid in full on April 2, 1997.....	--	--	296
Term loan payable to a bank, interest due monthly at the bank's prime rate (8.5% at March 31, 1997) plus 2.25%, principal due in monthly installments of $8,333 until paid in full on November 30, 1997.....	242	141	62
Liability under settlement agreements, interest computed at the 52 week treasury bill rate (5.66% at March 31, 1997), principal due $300,000 in 1998, and $400,000 in 1999.....	1,300	1,000	700
Other.....	25	535	602
	4,757	4,604	4,664
Less current portion of long-term debt.....	1,232	1,491	1,601
Long-term portion of debt.....	$3,525	$3,113	$3,063

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

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

7. INCOME TAXES

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

	YEAR ENDED JUNE 30,			NINE MONTS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
				(Unaudited)	
Pretax income:					
United States	$ 547	$1,277	$1,965	$1,053	$1,904
Foreign	1,016	277	1,288	1,252	2,013
Total pretax income	$1,563	$1,554	$3,253	$2,305	$3,917

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

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

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

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

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

	YEAR ENDED JUNE 30,			NINE MONTS ENDED MARCH 31,	
	1994	1995	1996	1996	1997
				(Unaudited)	
Provision for income taxes at federal statutory rate	35.0 %	35.0 %	35.0 %	35.0 %	35.0 %
State income taxes (credits), net of federal benefit	1.3	(2.6)	0.2	0.2	(5.2)
Nontaxable earnings of FSC	(3.8)	(7.1)	(5.7)	(5.7)	(5.8)
Research and development tax credits	--	(2.8)	--	--	(2.3)
Foreign income subject to tax at other than federal statutory rate	3.2	0.7	1.1	1.1	0.2
Government settlement	16.8	--	--	--	--
Other	(0.4)	3.4	3.6	3.6	3.2
Effective income tax rate	52.1 %	26.6 %	34.2 %	34.2 %	25.1 %

The Company does not provide for U.S. income taxes on the undistributed earnings of the foreign subsidiaries as it is the Company's intention to utilize those earnings in the foreign operations for an indefinite period of time. At March 31, 1997 undistributed earnings of the foreign subsidiaries amounted to $3,022,000. It is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings.

8. COMMITMENTS AND CONTINGENCIES

The Company leases its production and office facilities and certain equipment under various operating leases. Most of these leases provide for increases in rents based on the Consumer Price Index and include renewal options ranging from two to ten years. The lease for the production and office facilities in Hawthorne, California expires in 2005, and the Company is currently considering exercising its option to purchase the facilities for approximately $3,000,000. Future minimum lease payments under such leases as of March 31, 1997 are as follows: (3 months) 1997, $280,000; 1998, $1,046,000; 1999, $826,000; 2000, $684,000; 2001, $658,000; 2002, $401,000; and thereafter, $2,561,000. Total rent expense included in the accompanying consolidated financial statements was $825,000, $959,000, $901,000, $725,000, and $670,000 for the years ended June 30, 1994, 1995, and 1996 and the nine months ended March 31, 1996 (unaudited) and 1997, respectively.

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

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

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

Management of the Company believes that the resolution of the above noted litigation and other legal proceedings will not have a material adverse effect on the Company's consolidated financial statements.

9. STOCK OPTIONS

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

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

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

In November and December 1996, the Company granted stock options for the purchase of 235,125 shares of the Company's common stock to certain employees at prices below the $6.67 estimated fair market value at the date grant. The options were accelerated to vest immediately and accordingly, the Company has recorded compensation expense for the nine months ended March 31, 1997, representing the excess of the fair value of the Company's common stock at the date of grant over the option exercise price.

The following summarizes stock option activity for the years ended June 30, 1994, 1995 and 1996 and for the nine months ended March 31, 1997:

	NUMBER OF OPTIONS	OPTION PRICE WEIGHTED AVERAGE	OPTION PRICE TOTAL
Outstanding, July 1, 1993	355,125	$1.10	$ 390,000
Granted	37,500	2.33	88,000
Exercised	(75,000)	0.37	(28,000)
Canceled	(9,750)	1.03	(10,000)
Outstanding, July 1, 1994	307,875	1.43	440,000
Granted	69,000	2.00	138,000
Exercised	(60,000)	1.25	(75,000)
Canceled	(19,500)	1.77	(34,000)
Outstanding, July 1, 1995	297,375	1.57	469,000
Granted	51,000	2.17	111,000
Exercised	(16,125)	1.06	(17,000)
Canceled	(13,500)	1.60	(22,000)
Outstanding, June 30, 1996	318,375	1.70	541,000
Granted	235,125	2.98	701,000
Exercised	(49,500)	1.60	(79,000)
Canceled	(5,250)	2.00	(10,000)
Outstanding, March 31, 1997	499,125	$2.31	$1,153,000

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

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

The Company has adopted the disclosure-only provisions of SFAS 123, "Accounting for Stock-Based Compensation." The estimated fair value of options granted during 1996 and for the nine months ended March 31, 1997 pursuant to SFAS 123 was approximately $19,000 and $1,045,000, respectively. Had the Company adopted SFAS 123, pro forma net income would have been $2,297,000 and $2,913,000, and pro forma net income per share would have been $0.36 and $0.46 for 1996 and for the nine months ended March 31, 1997, respectively. The fair value of each option grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions: dividend yield and volatility of zero, a risk free interest rate of 6.28% and expected option lives of 5 years.

10. STOCKHOLDERS' EQUITY

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

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

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

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

11. RELATED PARTY TRANSACTIONS

The Company contracts with entities affiliated by common ownership to provide messenger service and auto rental and printing services. The Company also contracts for professional services from a firm that has a partner serving as a member of the Company's Board of Directors. Included in selling, general and administrative expenses for the years ended June 30, 1994, 1995, and 1996 and for the nine months ended March 31, 1996 (unaudited) and 1997 are approximately $61,000, $77,000, $83,000, $65,000, and $87,000 for messenger service and auto rental; $68,000, $78,000, $63,000, $42,000 and $64,000 for printing services; and $10,000, $23,000, $7,000, $7,000 and $3,000 for professional services, respectively. During the nine months ended March 31, 1997, the Company paid a one time consulting fee amounting to $100,000 to an entity that is a shareholder of the Company.

Shareholders and other parties related to the Company have made loans to the Company under agreements subordinating such loans to the Company's bank borrowings (see Notes 4, 5 and 6). Interest expense related to such borrowings was approximately $302,000, $315,000, $263,000, $197,000 and $146,000 for the years ended June 30, 1994, 1995, 1996 and the nine months ended March 31, 1996 (unaudited) and 1997, respectively.

12. GOVERNMENT SETTLEMENT

During 1994, a subsidiary of the Company was notified that the U.S. Department of Justice was conducting an investigation regarding the testing of certain products that were sold by a subsidiary under government contracts. A settlement of $1,500,000 was agreed to, and was accrued and included in selling, general and administrative expense in the accompanying statement of operations for the year ended June 30, 1994. The settlement is being paid in five increasing installments, with the unpaid principal balance bearing interest at the 52-week Treasury bill rate. At March 31, 1997, the unpaid balance of this settlement was $700,000 (see Note 6).

13. EMPLOYEE BENEFIT PLANS

OSI Systems, Inc. has a qualified employee retirement savings plan. The plan provides for a contribution by the Company, which is determined annually by the Board of Directors. In addition, the plan permits voluntary salary reduction contributions by employees. The Company made no contributions to the plan for the nine months ended March 31, 1997 and 1996 (unaudited) or for the years ended June 30, 1996, 1995 and 1994. During 1995, a subsidiary in the U.K. ("Rapiscan") transferred its existing employees from their former owner's plan to a new plan, the Rapiscan defined benefit plan, which covers certain Rapiscan employees. The benefits under this plan are based on years of service and the employee's highest 12 months' compensation during the last five years of employment. Rapiscan's funding policy is to make the minimum annual contributions required by applicable regulations based on an independent actuarial valuation sufficient

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

14. SEGMENT INFORMATION

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

	YEAR ENDED JUNE 30, 1994				
	UNITED STATES	EUROPE	ASIA	ELIMINATIONS	CONSOLIDATED
Revenues	$29,788	$13,624	$4,323		$47,735
Transfer between geographical areas	1,551	742	882	$ (3,175)	--
Net revenues	$31,339	$14,366	$5,205	$ (3,175)	$47,735
Operating income	$ 1,028	$ 564	$ 653	$ 28	$ 2,273
Identifiable assets	$29,266	$ 9,629	$2,923	$(16,011)	$25,807

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

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

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

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

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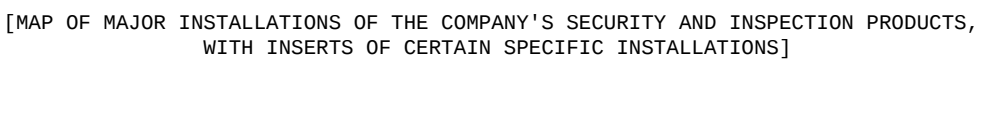

The Company's security and inspection products are used for security purposes at locations such as airports, courthouses, government buildings, nuclear facilities, mail rooms, schools and prisons. In addition, the security and inspections products are also increasingly being used for non-security purposes,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

[LOGO OF OPTO-SENSORS, INC.]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

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

Securities and Exchange Commission registration fee	$ 18,052
NASD filing fee	6,457
Nasdaq National Market System listing fee	26,275
Printing and engraving expenses	100,000
Transfer agent and registrar fees	2,000
Legal fees and expenses	175,000
Accounting fees and expenses	150,000
"Blue sky" fees and expenses	15,000
Other expenses	167,216
Total	$660,000*

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* The Selling Shareholders will pay their pro rata share of all expenses incurred with respect to the distribution of the Common Stock, which amount is currently estimated to be approximately $60,000.

ITEM 14. INDEMNIFICATION OF DIRECTORS AND OFFICERS

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

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

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

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

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

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

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

In addition, the Company intends to enter into indemnification agreements ("Indemnification Agreement(s)") with each of its directors and executive officers prior to the consummation of the Offering. Each such Indemnification Agreement will provide that the Company will indemnify the indemnitee against expenses, including reasonable attorneys' fees, judgements, penalties, fines and amounts paid in settlement actually and reasonably incurred by him in connection with any civil or criminal action or administrative proceeding arising out of the performance of his duties as a director or officer, other than an action instituted by the director or officer. Such indemnification is available if the indemnitee acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect

to any criminal action, had no reasonable cause to believe his conduct was unlawful. Each Indemnification Agreement will permit the director or officer that is party thereto to bring suit to seek recovery of amounts due under the Indemnification Agreement and to recover the expenses of such a suit if he is successful.

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

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

ITEM 15. RECENT SALES OF UNREGISTERED SECURITIES

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

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

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

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

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

In November 1996, the Company issued 159,201 shares of its Common Stock to 10 officers and key employees of the Company in exchange for all of the shares of capital stock of Rapiscan U.S.A., one of the Company's subsidiaries, then owned by such officers and employees. The shares of Common Stock were valued at $6.67 per share.

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

The Company believes that the issuances of securities pursuant to the foregoing transactions were exempt from registration under the Securities Act of 1933, as amended, by virtue of Section 4(2) thereof as transactions not involving public offerings.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

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* To be filed by amendment.

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

Schedule II--Valuation and Qualifying Accounts

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

ITEM 17. UNDERTAKINGS

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

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

(c) The undersigned Registrant hereby undertakes that:

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Hawthorne, State of California, on June 12, 1997.

OSI SYSTEMS, INC.

/s/ DEEPAK CHOPRA
By: _____
Deepak Chopra
Chairman, Chief Executive Officer
and President

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Deepak Chopra and Ajay Mehra, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

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

SIGNATURE	TITLE	DATE
/s/ DEEPAK CHOPRA Deepak Chopra	Chairman, Chief Executive Officer and President (Principal Executive Officer)	June 12, 1997
/s/ AJAY MEHRA Ajay Mehra	Vice President, Chief Financial Officer, Secretary and Director (Principal Financial and Accounting Officer)	June 12, 1997
/s/ STEVEN C. GOOD Steven C. Good	Director	June 12, 1997
/s/ MEYER LUSKIN Meyer Luskin	Director	June 12, 1997
/s/ MADAN G. SYAL Madan G. Syal	Director	June 12, 1997

SCHEDULE II--VALUATION AND QUALIFYING ACCOUNTS

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS (1) CHARGED TO COSTS AND EXPENSES	ADDITIONS (2) CHARGED TO OTHER ACCOUNTS	DEDUCTIONS-- WRITE-OFFS (RECOVERIES)	BALANCE AT END OF PERIOD
Allowance for doubtful accounts:					
Year Ended June 30, 1994	$ 38	$150	--	(15)	$203
Year Ended June 30, 1995	$203	(70)	--	80	$ 53
Year Ended June 30, 1996	$ 53	$404	--	181	$276
Nine Months Ended March 31, 1997	$276	$ 97	--	79	$294

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

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* To be filed by amendment.

EXHIBIT 1.1

3,700,000 Shares/1/

OSI SYSTEMS, INC.

Common Stock

FORM OF UNDERWRITING AGREEMENT

_____, 1997

ROBERTSON, STEPHENS & COMPANY LLC
WILLIAM BLAIR & COMPANY, L.L.C.
VOLPE BROWN WHELAN & COMPANY LLC
As Representatives of the several Underwriters
c/o Robertson, Stephens & Company LLC
555 California Street
Suite 2600
San Francisco, California 94104

Ladies and Gentlemen:

OSI SYSTEMS, INC., a California corporation (the "Company"), and certain shareholders of the Company named in Schedules B and C hereto (hereafter called the "Selling Shareholders") address you as the Representatives of each of the persons, firms and corporations listed in Schedule A hereto (herein collectively called the "Underwriters") and hereby confirm their respective agreements with the several Underwriters as follows:

1. Description of Shares. The Company proposes to issue and sell 3,330,000 shares of its authorized and unissued common stock, no par value, to the Underwriters. The Selling Shareholders, acting severally and not jointly, propose to sell an aggregate of 370,000 shares of the Company's issued and outstanding common stock, no par value, to the several Underwriters. The 3,330,000 shares of common stock, no par value, of the Company to be sold by the Company are hereinafter called the "Company Shares" and the 370,000 shares of common stock, no par value, to be sold by the Selling Shareholders are hereinafter called the "Selling

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/1/ Plus an option to purchase up to 555,000 additional shares from certain shareholders of the Company to cover over-allotments.

Shareholder Shares." The Company Shares and the Selling Shareholder Shares are hereinafter collectively referred to as the "Firm Shares." Certain Selling Shareholders also propose to grant, severally and not jointly, to the Underwriters, an option to purchase up to 555,000 additional shares of the Company's common stock, no par value (the "Option Shares"), as provided in Section 8 hereof. As used in this Agreement, the term "Shares" shall include the Firm Shares and the Option Shares. All shares of the Company's common stock, no par value, outstanding after giving effect to the sales contemplated hereby, including the Shares, are hereinafter referred to as "Common Stock."

2. Representations, Warranties and Agreements of the Company. The Company represents and warrants to and agrees with each Underwriter and each Selling Shareholder that:

(a) A registration statement on Form S-1 (File No. 333-_____) with respect to the offer and sale of the Shares, including a prospectus subject to completion, has been prepared by the Company in conformity with the requirements prescribed by the Securities Act of 1933, as amended (the "Act"), and the applicable rules and regulations (the "Rules and Regulations") prescribed by the Securities and Exchange Commission (the "Commission") pursuant to the Act and has been filed with the Commission; such amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements pursuant to Rule 462(b) of the Rules and Regulations as may have been required prior to the date hereof have been similarly prepared and filed with the Commission; and the Company will file such additional amendments to such registration statement, such amended prospectuses subject to completion and such abbreviated registration statements as may hereafter be required. Copies of such registration statement and amendments, of each related prospectus subject to completion (the "Preliminary Prospectuses") and of any abbreviated registration statement filed pursuant to Rule 462(b) of the Rules and Regulations have been delivered to you.

If the registration statement relating to the Shares has been declared effective under the Act by the Commission, the Company will prepare and promptly file with the Commission the information omitted from the registration statement in reliance upon Rule 430A(a) or, if Robertson, Stephens & Company LLC, on behalf of the Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) of the Rules and Regulations pursuant to subparagraph (1), (4) or (7) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to the registration statement (including a final form of prospectus). If the registration statement relating to the Shares has not been declared effective under the Act by the Commission, the Company will prepare and promptly file an amendment to the registration statement, including a final form of prospectus, or, if Robertson, Stephens & Company LLC, on behalf of the Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the information required to be included in any term sheet filed pursuant to Rule 434(b) of the Rules and Regulations. The term "Registration Statement" as used in this Agreement shall mean such registration statement, including financial statements, schedules and exhibits, in the form in which it was or is, as the case may be, declared effective (including, if the Company omitted information from the registration statement in reliance upon Rule 430A(a) or files a term sheet pursuant to Rule 434 of the Rules and Regulations, the information deemed

to be a part of the registration statement at the time it was declared effective pursuant to Rule 430A(b) or Rule 434(d) of the Rules and Regulations) and, in the event of any amendment thereto or the filing of any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations after the effective date of such registration statement, shall also mean (from and after the effectiveness of such amendment or the filing of such abbreviated registration statement) such registration statement as so amended, together with any such abbreviated registration statement. The term "Prospectus" as used in this Agreement shall mean the prospectus relating to the Shares as included in the Registration Statement at the time it is declared effective (including, if the Company omitted information from the Registration Statement in reliance upon Rule 430A(a) of the Rules and Regulations, the information deemed to be a part of the Registration Statement pursuant to Rule 430A(b) of the Rules and Regulations as of the time it was declared effective; provided, however, that if
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in reliance on Rule 434 of the Rules and Regulations and with the written consent of Robertson, Stephens & Company LLC, acting on behalf of the Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the term "Prospectus" shall mean the "prospectus subject to completion" (as defined in Rule 434(g) of the Rules and Regulations) last provided to the Underwriters by the Company and circulated by the Underwriters to all prospective purchasers of the Shares (including the information deemed to be a part of the Registration Statement pursuant to Rule 434(d) of the Rules and Regulations) at the time the Registration Statement was declared effective. Notwithstanding the foregoing, if any revised prospectus shall be provided to the Underwriters by the Company for use in connection with the offering of the Shares that differs from the prospectus referred to in the immediately preceding sentence (whether or not such revised prospectus is required to be filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations), the term "Prospectus" shall refer to such revised prospectus from and after the time it is first provided to the Underwriters for such use. If in reliance on Rule 434 of the Rules and Regulations and with the consent of Robertson, Stephens & Company LLC, acting on behalf of the Underwriters, the Company shall have provided to the Underwriters a term sheet pursuant to Rule 434(b) prior to the time that a confirmation is sent or given for purposes of Section 2(10)(a) of the Act, the Prospectus and the term sheet, together, will not be materially different from the prospectus in the Registration Statement.

(b) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus or instituted proceedings for that purpose, and each such Preliminary Prospectus has conformed in all material respects to the requirements of the Act and the Rules and Regulations and, as of its date, has not included any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and at the time the Registration Statement was or is, as the case may be, declared effective and at all times subsequent thereto up to and on the Closing Date (hereinafter defined) and on any later date on which Option Shares are to be purchased, (i) the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained and will contain all material information required to be included therein by the Act and the Rules and Regulations and will in all material respects conform to the requirements of the Act and the Rules and Regulations, (ii) the Registration Statement, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact required to be stated therein, or necessary to make

the statements therein not misleading, and (iii) the Prospectus, and any amendments or supplements thereto, did not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties contained in this subparagraph (b) shall apply to information contained in or omitted from the Registration Statement or Prospectus, or any amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter, furnished to the Company by such Underwriter specifically for use in the preparation thereof.

(c) Each of the Company and its subsidiaries has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation with full power and authority (corporate and other) to own, lease and operate its properties and conduct its business as described in the Prospectus; the Company owns all of the outstanding capital stock of its subsidiaries free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; each of the Company and its subsidiaries is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification; no proceeding has been instituted in any such jurisdiction, revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority or qualification; each of the Company and its subsidiaries is in possession of and operating in compliance with all authorizations, licenses, certificates, consents, orders and permits from state, federal and other regulatory authorities which are material to the conduct of its business, all of which are valid and in full force and effect as of the date hereof; neither the Company nor any of its subsidiaries is in violation of its respective incorporating charter or bylaws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any material bond, debenture, note or other evidence of indebtedness, or in any material lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound; and neither the Company nor any of its subsidiaries is in material violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties of which it has knowledge. The Company does not own or control, directly or indirectly, any corporation, association or other entity other than Rapiscan Security Products (U.S.A.), Inc., a California corporation, Rapiscan Security Products Limited, a private company formed under the laws of the United Kingdom and registered in England, Ferson Optics, Inc., a California corporation, UDT Sensors, Inc., a California corporation, [Ecil Rapiscan Security Products Limited], a limited liability joint stock corporation organized under the laws of India, Advanced Micro Electronics AS ("AME"), a company incorporated under Norwegian law, Opto Sensors (Singapore) Pte Ltd, a private company limited by shares and incorporated in the Republic of Singapore, Opto Sensors (Malaysia) Sdn. Bhd., a private company limited by shares and incorporated in Malaysia, OSI Electronics, a California corporation, and Rapiscan Consortium (M) Sdn. Bhd., a private company limited by shares and incorporated in Malaysia.

(d) The Company has full legal right, power and authority to enter into this Agreement and to perform the transactions contemplated hereby. This Agreement has been

duly authorized, executed and delivered by the Company and is a valid and binding agreement on the part of the Company, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except to the extent that the enforcement hereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a material breach or violation of any of the terms and provisions of, or constitute a default under, (i) any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of its subsidiaries or their respective properties may be bound, (ii) the charter or bylaws of the Company or any of its subsidiaries, or (iii) any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties. No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective properties is required for the execution and delivery of this Agreement and the consummation by the Company or any of its subsidiaries of the transactions herein contemplated, except such as may be required under the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act") (if applicable), or under state or other securities or Blue Sky laws, all of which requirements have been satisfied in all material respects.

(e) There is not any pending or, to the best of the Company's knowledge, threatened action, suit, claim or proceeding against the Company, any of its subsidiaries or any of their respective officers or any of their respective properties, assets or rights before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Company or any of its subsidiaries or over their respective officers or properties or otherwise which (i) may result in any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise or may materially and adversely affect their properties, assets or rights, (ii) may prevent consummation of the transactions contemplated hereby or (iii) is required to be disclosed in the Registration Statement or Prospectus and is not so disclosed; and there are no agreements, contracts, leases or documents of the Company or any of its subsidiaries of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement by the Act or the Rules and Regulations which have not been accurately described in all material respects in the Registration Statement or Prospectus or filed as exhibits to the Registration Statement.

(f) All outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all federal and state securities laws, were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities, and the authorized and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" and conforms in all material respects to the statements relating thereto contained in the Registration Statement and the Prospectus (and

such statements correctly state the substance of the instruments defining the capitalization of the Company); the Shares have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company against payment therefor in accordance with the terms of this Agreement, will be duly and validly issued and fully paid and nonassessable, and will be sold free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest; and no preemptive right, co-sale right, registration right, right of first refusal or other similar right of shareholders exists with respect to any of the Shares or the sale thereof or the issuance of the Company Shares other than those that have been expressly waived prior to the date hereof and those that will automatically expire upon and will not apply to the consummation of the transactions contemplated on the Closing Date. No further approval or authorization of any shareholder, the Board of Directors of the Company or others is required for the issuance and sale or transfer of the Shares except as may be required under the Act, the Exchange Act or under state or other securities or Blue Sky laws. All issued and outstanding shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and were not issued in violation of or subject to any preemptive right, or other rights to subscribe for or purchase shares and are owned by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. Except as disclosed in the Prospectus and the financial statements of the Company, and the related notes thereto, included in the Prospectus, neither the Company nor any subsidiary has outstanding any options to purchase, or any preemptive rights or other rights to subscribe for or to purchase, any securities or obligations convertible into, or any contracts or commitments to issue or sell, shares of its capital stock or any such options, rights, convertible securities or obligations. The description in the Prospectus of the Company's stock option, stock bonus and other stock plans or arrangements, and the options or other rights granted and exercised thereunder, accurately and fairly presents the information required to be shown with respect to such plans, arrangements, options and rights.

(g) Deloitte & Touche LLP, which has examined the consolidated financial statements of the Company, together with the related schedules and notes, for the nine months ended March 31, 1997 and for each of the years in the three (3) fiscal years ended June 30, 1996 filed with the Commission as a part of the Registration Statement, which are included in the Prospectus, are independent accountants within the meaning of the Act and the Rules and Regulations; the audited consolidated financial statements of the Company, together with the related schedules and notes, and the unaudited consolidated financial information, forming part of the Registration Statement and Prospectus, fairly present the financial position and the results of operations of the Company and its subsidiaries at the respective dates and for the respective periods to which they apply; and all audited consolidated financial statements of the Company, together with the related schedules and notes, and the unaudited consolidated financial information, filed with the Commission as part of the Registration Statement, have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved except as may be otherwise stated therein. The selected and summary financial and statistical data included in the Registration Statement present fairly the information shown therein and have been compiled on a basis consistent with the audited financial statements presented therein. No other financial statements or schedules are required to be included in the Registration Statement.

(h) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (i) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (iii) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (iv) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (v) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (vi) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(i) Except as set forth in the Registration Statement and Prospectus, (i) each of the Company and its subsidiaries has good and marketable title to all properties and assets described in the Registration Statement and Prospectus as owned by it, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest, other than such as would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (ii) the agreements to which the Company or any of its subsidiaries is a party described in the Registration Statement and Prospectus are valid agreements, enforceable by the Company and its subsidiaries (as applicable), except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles and, to the best of the Company's knowledge, the other contracting party or parties thereto are not in material breach or material default under any of such agreements, and (iii) the Company and each of its subsidiaries has valid and enforceable leases for all properties described in the Registration Statement and Prospectus as leased by it, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles. Except as set forth in the Registration Statement and Prospectus, the Company owns or leases all such properties as are necessary to its operations as now conducted or as proposed to be conducted.

(j) The Company and its subsidiaries have timely filed all necessary federal, state and foreign income and franchise tax returns and have paid all taxes shown thereon as due, and there is no tax deficiency that has been or, to the best of the Company's knowledge, might be asserted against the Company or any of its subsidiaries that might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; and all tax liabilities are adequately provided for on the books of the Company and its subsidiaries.

(k) The Company and its subsidiaries maintain insurance with insurers of recognized financial responsibility of the types and in the amounts generally deemed adequate

for their respective businesses and consistent with insurance coverage maintained by similar companies in similar businesses, including, but not limited to, insurance covering real and personal property owned or leased by the Company or its subsidiaries, against theft, damage, destruction, acts of vandalism and all other risks customarily insured against, all of which insurance is in full force and effect; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(l) To the best of Company's knowledge, no labor disturbance by the employees of the Company or any of its subsidiaries exists or is imminent; and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its principal suppliers, subassemblers, value added resellers, subcontractors, original equipment manufacturers, authorized dealers, or international distributors that might be expected to result in a material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise. Except for with respect to the employees of AME, no collective bargaining agreement exists with any of the Company's or its subsidiaries' employees and, to the best of the Company's knowledge, no such agreement is imminent.

(m) Each of the Company and its subsidiaries owns or possesses adequate rights to use all patents, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names and copyrights which are necessary to conduct its businesses as described in the Registration Statement and Prospectus; the expiration of any patents, patent rights, trade secrets, trademarks, service marks, trade names or copyrights would not have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise; the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of the Company by others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights; and the Company has not received any notice of, and has no knowledge of, any infringement of or conflict with asserted rights of others with respect to any patent, patent rights, inventions, trade secrets, know-how, trademarks, service marks, trade names or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, might have a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(n) The Common Stock has been approved for quotation on The Nasdaq National Market, subject to official notice of issuance.

(o) The Company has been advised as to the provisions of the Investment Company Act of 1940, as amended (the "1940 Act"), and the rules and regulations thereunder, and has in the past conducted, and intends in the future to conduct, its affairs in such

a manner as to ensure that it will not become an "investment company" or a company "controlled" by an "investment company" within the meaning of the 1940 Act and such rules and regulations.

(p) The Company has not distributed and will not distribute prior to the later of (i) the Closing Date, or any date on which Option Shares are to be purchased, as the case may be, and (ii) completion of the distribution of the Shares, any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectuses, the Prospectus, the Registration Statement and other materials, if any, permitted by the Act.

(q) Neither the Company nor any of its subsidiaries has at any time during the last five (5) years (i) made any unlawful contribution to any candidate for foreign office or failed to disclose fully any contribution in violation of law, or (ii) made any payment to any federal or state governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof.

(r) The Company has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(s) Each officer and director of the Company, each Selling Shareholder and each beneficial owner shares of Common Stock as reflected on Exhibit A attached hereto has agreed in writing that such person will not, for a period of 180 days from the date that the Registration Statement is declared effective by the Commission (the "Lock-up Period"), offer to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights with respect to (collectively, a "Disposition") any shares of Common Stock, any options or warrants to purchase any shares of Common Stock or any securities convertible into or exchangeable for shares of Common Stock (collectively, "Securities") now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person has also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction. The Company has provided to counsel for the Underwriters a complete and accurate list of all securityholders of the Company and the number

and type of securities held by each securityholder. The Company has provided to counsel for the Underwriters true, accurate and complete copies of all of the agreements pursuant to which its officers, directors and shareholders have agreed to such or similar restrictions (the "Lock-up Agreements") presently in effect or effected hereby. The Company hereby represents and warrants that it will not release any of its officers, directors or other shareholders from any Lock-up Agreements currently existing or hereafter effected without the prior written consent of Robertson, Stephens & Company LLC.

(t) Except as set forth in the Registration Statement and Prospectus, (i) the Company is in compliance with all rules, laws and regulations relating to the use, treatment, storage and disposal of toxic substances and protection of health or the environment ("Environmental Laws") which are applicable to its business, (ii) the Company has received no notice from any governmental authority or third party of an asserted claim under Environmental Laws, which claim is required to be disclosed in the Registration Statement and the Prospectus, (iii) the Company will not be required to make future material capital expenditures to comply with Environmental Laws and (iv) no property which is owned, leased or occupied by the Company has been designated as a Superfund site pursuant to the Comprehensive Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. (S) 9601, et seq.), or otherwise
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designated as a contaminated site under applicable state or local law.

(u) The Company and each of its subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(v) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of the members of the families of any of them, except as disclosed in the Registration Statement and the Prospectus.

(w) [IF ANY SHARES ARE TO BE SOLD TO RETAIL INVESTORS IN FLORIDA: The Company has complied with all provisions of Section 517.075, Florida Statutes relating to doing business with the Government of Cuba or with any person or affiliate located in Cuba.]

3. Representations and Warranties of the Selling Shareholders. Each
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Selling Shareholder, severally and not jointly, represents and warrants to and agrees with each Underwriter and the Company that:

(a) Such Selling Shareholder now has and on the Closing Date, and on any later date on which Option Shares are purchased, will have, valid marketable title to the Shares to be sold by such Selling Shareholder, free and clear of any pledge, lien, security interest,

encumbrance, claim or equitable interest other than pursuant to this Agreement; and upon delivery of such Shares hereunder and payment of the purchase price as herein contemplated, each of the Underwriters will obtain valid marketable title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest pertaining to such Selling Shareholder or such Selling Shareholder's property, encumbrance, claim or equitable interest, including any liability for estate or inheritance taxes, or any liability to or claims of any creditor, devisee, legatee or beneficiary of such Selling Shareholder.

(b) Such Selling Shareholder has duly authorized (if applicable) executed and delivered, in form heretofore furnished to the Representatives, an Irrevocable Custody Agreement and Power of Attorney (the "Power of Attorney and Custody Agreement") appointing Deepak Chopra as attorney-in-fact (the "Attorney") with Deepak Chopra as custodian (the "Custodian"); each Power of Attorney and Custody Agreement constitutes a valid and binding agreement on the part of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and each of such Selling Shareholders' Attorney, acting alone, is authorized to execute and deliver this Agreement and the certificate referred to in Section 7(h) hereof on behalf of such Selling Shareholder, to determine the purchase price to be paid by the several Underwriters to such Selling Shareholder as provided in Section 4 hereof, to authorize the delivery of the Selling Shareholder Shares and the Option Shares to be sold by such Selling Shareholder under this Agreement and to duly endorse (in blank or otherwise) the certificate or certificates representing such Shares or a stock power or powers with respect thereto, to accept payment therefor, and otherwise to act on behalf of such Selling Shareholder in connection with this Agreement.

(c) All consents, approvals, authorizations and orders required for the execution and delivery by such Selling Shareholder of the Power of Attorney and Custody Agreement, the execution and delivery by or on behalf of such Selling Shareholder of this Agreement and the sale and delivery of the Selling Shareholder Shares and the Option Shares to be sold by such Selling Shareholder under this Agreement (other than, at the time of the execution hereof (if the Registration Statement has not yet been declared effective by the Commission), the issuance of the order of the Commission declaring the Registration Statement effective and such consents, approvals, authorizations or orders as may be necessary under state or other securities or Blue Sky laws) have been obtained and are in full force and effect; such Selling Shareholder, if other than a natural person, has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its organization as the type of entity that it purports to be; and such Selling Shareholder has full legal right, power and authority to enter into and perform its obligations under this Agreement and such Power of Attorney and Custody Agreement, and to sell, assign, transfer and deliver the Shares to be sold by such Selling Shareholder under this Agreement.

(d) Such Selling Shareholder will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such Selling Shareholder or with respect to which such Selling Shareholder has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof

agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such Selling Shareholder, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction is expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the Selling Shareholder. Such prohibited hedging or other transactions would including, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Such Selling Shareholder also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the securities held by such Selling Shareholder except in compliance with this restriction.

(e) Certificates in negotiable form for all Shares to be sold by such Selling Shareholder under this Agreement, together with a stock power or powers duly endorsed in blank by such Selling Shareholder, have been placed in custody with the Custodian for the purpose of effecting delivery hereunder.

(f) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of such Selling Shareholder and is a valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as rights to indemnification hereunder may be limited by applicable law and except as the enforcement hereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles; and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of or constitute a default under any bond, debenture, note or other evidence of indebtedness, or under any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument to which such Selling Shareholder is a party or by which such Selling Shareholder, or any Selling Shareholder Shares or any Option Shares to be sold by such Selling Shareholder hereunder, may be bound or, to the best of such Selling shareholders' knowledge, result in any violation of any law, order, rule, regulation, writ, injunction, judgment or decree of any court, government or governmental agency or body, domestic or foreign, having jurisdiction over such Selling Shareholder or over the properties of such Selling Shareholder, or, if such Selling Shareholder is other than a natural person, result in any violation of any provisions of the charter, bylaws or other organizational documents of such Selling Shareholder.

(g) Such Selling Shareholder has not taken and will not take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Shares.

(h) Such Selling Shareholder has not distributed and will not distribute any prospectus or other offering material in connection with the offering and sale of the Shares.

(i) All information furnished by or on behalf of such Selling Shareholder relating to such Selling Shareholder and the Selling Shareholder Shares that is contained in the representations and warranties of such Selling Shareholder in such Selling Shareholder's Power of Attorney and Custody Agreement or set forth in the Registration Statement or the Prospectus is, and at the time the Registration Statement became or becomes, as the case may be, effective, and at all times subsequent thereto through the Closing Date, and on any later date on which Option Shares are to be purchased, was or will be, true, correct and complete, and does not, and at the time the Registration Statement became or becomes, as the case may be, effective and at all times subsequent thereto through the Closing Date (hereinafter defined), and on any later date on which Option Shares are to be purchased, will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make such information not misleading.

(j) Such Selling Shareholder will review the Prospectus and will comply with all agreements and satisfy all conditions on its part to be complied with or satisfied pursuant to this Agreement on or prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, and will advise its Attorney and Robertson, Stephens & Company LLC prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, if any statement to be made on behalf of such Selling Shareholder in the certificate contemplated by Section 7(h) would be inaccurate if made as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be.

(k) Such Selling Shareholder does not have, or has waived prior to the date hereof, any preemptive right, co-sale right or right of first refusal or other similar right, in order to purchase any of the Shares that are to be sold by the Company or any of the other Selling Shareholders to the Underwriters pursuant to this Agreement; such Selling Shareholder does not have, or has waived prior to the date hereof, any registration right or other similar right, in order to participate in the offering made by the Prospectus, other than such rights of participation as have been satisfied by the participation of such Selling Shareholder in the transactions to which this Agreement relates in accordance with the terms of this Agreement; and such Selling Shareholder does not own any warrants, options or similar rights to acquire, and does not have any right or arrangement to acquire, any capital stock, rights, warrants, options or other securities from the Company, other than those described in the Registration Statement and the Prospectus.

(l) Such Selling Shareholder is not aware (with respect to Selling Shareholders who are not officers or directors of the Company, without having conducted any investigation or inquiry) that any of the representations and warranties of the Company set forth in Section 2 above is untrue or inaccurate in any material respect.

4. Purchase, Sale and Delivery of Shares.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company and the Selling Shareholders agree, severally and not jointly, to sell to the Underwriters, and each Underwriter agrees, severally and not jointly, to purchase from the Company and the Selling Shareholders, respectively, at a purchase price of $_____ per share, the respective number of Company Shares as hereinafter set forth and Selling Shareholder Shares set forth opposite the names of the Selling Shareholders in Schedule B hereto. The obligation of each Underwriter to the Company and to each Selling Shareholder shall be to purchase from the Company and such Selling Shareholder that number of Company Shares or Selling Shareholder Shares, as the case may be, which (as nearly as practicable, as determined by you) is in the same proportion to the number of Company Shares or Selling Shareholder Shares, as the case may be, set forth opposite the name of the Company or such Selling Shareholder in Schedule B hereto as the number of Firm Shares which is set forth opposite the name of such Underwriter in Schedule A hereto (subject to adjustment as provided in Section 11) is to the total number of Firm Shares to be purchased by all the Underwriters under this Agreement.

(b) The certificates in negotiable form for the Selling Shareholder Shares have been placed in custody (for delivery under this Agreement) under the Custody Agreement. Each Selling Shareholder agrees that the certificates for the Selling Shareholder Shares of such Selling Shareholder so held in custody are subject to the interests of the Underwriters hereunder, that the arrangements made by such Selling Shareholder for such custody, including the Power of Attorney, is to that extent irrevocable and that the obligations of such Selling Shareholder hereunder shall not be terminated by the act of such Selling Shareholder or by operation of law, whether by the death or incapacity of such Selling Shareholder or the occurrence of any other event, except as specifically provided herein or in the Custody Agreement. If any Selling Shareholder should die or be incapacitated, or if any other such event should occur before the delivery of the certificates for the Selling Shareholder Shares hereunder, the Selling Shareholder Shares to be sold by such Selling Shareholder shall, except as specifically provided herein or in the Custody Agreement, be delivered by the Custodian in accordance with the terms and conditions of this Agreement as if such death, incapacity or other event had not occurred, regardless of whether the Custodian shall have received notice of such death or other event.

(c) Delivery of definitive certificates for the Firm Shares to be purchased by the Underwriters pursuant to this Section 4 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the Company with regard to the Shares being purchased from the Company, and to the order of the Custodian for the respective accounts of the Selling Shareholders with regard to the Shares being purchased from such Selling Shareholders (and the Company and such Selling Shareholders agree not to deposit and to cause the Custodian not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of its delivery to the Company or the Custodian, as the case may be, and, in the event of any breach of the foregoing, the Company or the Selling Shareholders,

as the case may be, shall reimburse the Underwriters for the interest lost and any other expenses borne by them by reason of such breach), at the offices of Troy & Gould, 1801 Century Park East, 16th Floor, Los Angeles, California 90067 (or at such other place as may be agreed upon among the Representatives and the Company and the Attorneys), at 7:00 A.M., San Francisco time (a) on the third (3rd) full business day following the first day that Shares are traded, (b) if this Agreement is executed and delivered after 1:30 P.M., San Francisco time, the fourth (4th) full business day following the day that this Agreement is executed and delivered or (c) at such other time and date not later than seven (7) full business days following the first day that Shares are traded as the Representatives and the Company and the Attorneys may determine (or at such time and date to which payment and delivery shall have been postponed pursuant to Section 11 hereof), such time and date of payment and delivery being herein called the "Closing Date;" provided, however, that if the Company has not made
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available to the Representatives copies of the Prospectus within the time provided in Section 5(d) hereof, the Representatives may, in their sole discretion, postpone the Closing Date until no later than two (2) full business days following delivery of copies of the Prospectus to the Representatives. The certificates for the Firm Shares to be so delivered will be made available to you for examination at such office or such other location including, without limitation, in Chicago, as you may reasonably request, at least one (1) full business day prior to the Closing Date and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to the Closing Date. If the Representatives so elect, delivery of the Firm Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representatives.

(d) It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been received by you prior to the Closing Date for the Firm Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(e) After the Registration Statement is declared effective, the several Underwriters intend to make an initial public offering (as such term is described in Section 12 hereof) of the Firm Shares at an initial public offering price of $_____ per share. After the initial public offering, the several Underwriters may, in their discretion, vary the public offering price.

(f) The information set forth in the last paragraph on the front cover page (insofar as such information relates to the Underwriters), on the inside front cover concerning stabilization and over-allotment by the Underwriters, and under the ____ and ____ paragraphs under the caption "Underwriting" in any Preliminary Prospectus and in the Prospectus constitutes the only information furnished by the Underwriters to the Company for inclusion in any Preliminary Prospectus, the Prospectus or the Registration Statement, and you, on behalf of the respective Underwriters, represent and warrant to the Company and the Selling Shareholders that the statements made therein do not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

5. Further Agreements of the Company. The Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement and any amendment thereof, if not effective at the time and date that this Agreement is executed and delivered by the parties hereto, to become effective as promptly as possible; the Company will use its best efforts to cause any abbreviated registration statement pursuant to Rule 462(b) of the Rules and Regulations as may be required subsequent to the date the Registration Statement is declared effective to become effective as promptly as possible; the Company will notify you, promptly after it shall receive notice thereof, of the time when the Registration Statement, any subsequent amendment to the Registration Statement or any abbreviated registration statement, has become effective or any supplement to the Prospectus has been filed; if the Company omitted information from the Registration Statement at the time it was originally declared effective in reliance upon Rule 430A(a) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed, within the time period prescribed, with the Commission pursuant to subparagraph (1) or (4) of Rule 424(b) of the Rules and Regulations or as part of a post-effective amendment to such Registration Statement as originally declared effective which is declared effective by the Commission; if the Company files a term sheet pursuant to Rule 434 of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus and term sheet meeting the requirements of Rule 434(b) or (c) of the Rules and Regulations, as applicable, have been filed, within the time period prescribed, with the Commission pursuant to subparagraph (7) of Rule 424(b) of the Rules and Regulations; if for any reason the filing of the final form of Prospectus is required under Rule 424(b)(3) of the Rules and Regulations, the Company will provide evidence satisfactory to you that the Prospectus contains such information and has been filed with the Commission within the time period prescribed; the Company will notify you promptly of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; promptly upon your request, the Company will prepare and file with the Commission any amendments or supplements to the Registration Statement or Prospectus which, in the opinion of counsel for the several Underwriters ("Underwriters' Counsel"), may be necessary or advisable in connection with the distribution of the Shares by the Underwriters; the Company will promptly prepare and file with the Commission, and promptly notify you of the filing of, any amendments or supplements to the Registration Statement or Prospectus which may be necessary to correct any statements or omissions, if, at any time when a prospectus relating to the Shares is required to be delivered under the Act, any event shall have occurred as a result of which the Prospectus or any other prospectus relating to the Shares as then in effect would include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; in the event that any Underwriter is required to deliver a prospectus nine (9) months or more after the effective date of the Registration Statement in connection with the sale of the Shares, the Company will prepare promptly upon request, but at the expense of such Underwriter, such amendment or amendments to the Registration Statement and such prospectus or prospectuses as may be necessary to permit compliance with the requirements of Section 10(a)(3) of the Act; and the Company will file no amendment or supplement to the Registration Statement or Prospectus which shall not previously have been submitted to you a reasonable time prior to the proposed filing thereof or to which you

shall reasonably object in writing, subject, however, to compliance with the Act and the Rules and Regulations and the provisions of this Agreement.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge, of the issuance of any stop order by the Commission suspending the effectiveness of the Registration Statement or of the initiation or threat of any proceeding for that purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal at the earliest possible moment if such stop order should be issued.

(c) The Company will use its best efforts to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may designate and to continue the effectiveness of such qualifications for so long as may be required for purposes of the distribution of the Shares, except that the Company shall not be required in connection therewith, or as a condition thereof, to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction in which it is not otherwise required to be so qualified or to so execute a general consent to service of process. In each jurisdiction in which the Shares shall have been qualified as above provided, the Company will make and file such statements and reports in each year as are or may be required by the laws of such jurisdiction.

(d) The Company will furnish to you, as soon as available, and, in the case of the Prospectus and any term sheet or abbreviated term sheet under Rule 434, in no event later than the first (1st) full business day following the first day that Shares are traded, copies of the Registration Statement (three of which will be signed and which will include all exhibits), each Preliminary Prospectus, the Prospectus and any amendments or supplements to such documents, including any prospectus prepared to permit compliance with Section 10(a)(3) of the Act, all in such quantities as you may from time to time reasonably request. Notwithstanding the foregoing, if Robertson, Stephens & Company LLC, on behalf of the several Underwriters, shall agree to the utilization of Rule 434 of the Rules and Regulations, the Company shall provide to you copies of a Preliminary Prospectus updated in all respects through the date specified by you, in such quantities as you may from time to time reasonably request.

(e) The Company will make generally available to its securityholders as soon as practicable, but in no event later than the forty-fifth (45th) day following the end of the fiscal quarter first occurring after the first anniversary of the effective date of the Registration Statement, an earnings statement (which will be in reasonable detail but need not be audited) complying with the provisions of Section 11(a) of the Act and covering a twelve (12) month period beginning after the effective date of the Registration Statement.

(f) During a period of five (5) years after the date hereof, the Company will furnish to its shareholders as soon as practicable after the end of each respective period, annual reports (including financial statements audited by independent certified public accountants) and unaudited quarterly reports of operations for each of the first three quarters of the fiscal year, and will furnish to you and the other several Underwriters hereunder, upon request (i) concurrently with furnishing such reports to its shareholders, statements of operations of the Company for each of the first three (3) quarters in the form furnished to the Company's shareholders, (ii) concurrently with furnishing to its shareholders, a balance sheet of the Company

as of the end of such fiscal year, together with statements of operations, of shareholders' equity, and of cash flows of the Company for such fiscal year, accompanied by a copy of the certificate or report thereon of independent certified public accountants, (iii) as soon as they are available, copies of all reports (financial or other) mailed to shareholders, (iv) as soon as they are available, copies of all reports and financial statements furnished to or filed with the Commission, any securities exchange or the National Association of Securities Dealers, Inc. ("NASD"), (v) every material press release and every material news item or article in respect of the Company or its affairs which was generally released to shareholders or prepared by the Company or any of its subsidiaries, and (vi) any additional information of a public nature concerning the Company or its subsidiaries, or its business which you may reasonably request. During such five (5) year period, if the Company shall have active subsidiaries, the foregoing financial statements shall be on a consolidated basis to the extent that the accounts of the Company and its subsidiaries are consolidated, and shall be accompanied by similar financial statements for any significant subsidiary which is not so consolidated.

(g) The Company will apply the net proceeds from the sale of the Shares being sold by it in the manner set forth under the caption "Use of Proceeds" in the Prospectus.

(h) The Company will maintain a transfer agent and, if necessary under the jurisdiction of incorporation of the Company, a registrar (which may be the same entity as the transfer agent) for its Common Stock.

(i) The Company will file Form SR in conformity with the requirements of the Act and Rule 463 of the Rules and Regulations.

(j) If the transactions contemplated hereby are not consummated by reason of any failure, refusal or inability on the part of the Company or any Selling Shareholder to perform any agreement on their respective parts to be performed hereunder, or to fulfill any condition of the Underwriters' obligations hereunder, or if the Company shall terminate this Agreement pursuant to Section 12(a) hereof, or if the Underwriters shall terminate this Agreement pursuant to Section 12(b)(i), the Company will reimburse the several Underwriters for all out-of-pocket expenses (including fees and disbursements of Underwriters' Counsel) incurred by the Underwriters in investigating, or preparing to market, or marketing the Shares.

(k) If at any time during the ninety (90) day period after the Registration Statement becomes effective, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to, or amendment of, the Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of and disseminate a press release or other public statement, reasonably satisfactory to you, responding to or commenting on such rumor, publication or event.

(l) During the Lock-up Period, the Company will not, without the prior written consent of Robertson Stephens & Company LLC, effect the Disposition of, directly or indirectly, any Securities other than the sale of the Company Shares and the Company's issuance of options or Common Stock under the Company's presently authorized _____ (the "Option Plan").

(m) During a period of ninety (90) days from the effective date of the Registration Statement, the Company will not file a registration statement registering the offer and sale of shares under the Option Plan or any other employee benefit plan.

6. Expenses.

(a) The Company and the Selling Shareholders agree with each Underwriter that:

(i) The Company and the Selling Shareholders will pay and bear all costs and expenses in connection with the preparation, printing and filing of the Registration Statement (including financial statements, schedules and exhibits), Preliminary Prospectuses and the Prospectus and any amendments or supplements thereto; the printing of this Agreement, the Agreement Among Underwriters, the Selected Dealer Agreement, the Preliminary Blue Sky Survey and any Supplemental Blue Sky Survey, the Underwriters' Questionnaire and Power of Attorney, and any instruments related to any of the foregoing; the issuance and delivery of the Shares hereunder to the several Underwriters, including transfer taxes, if any, the cost of all certificates representing the Shares and transfer agents' and registrars' fees; the fees and disbursements of counsel for the Company; all fees and other charges of the Company's independent public accountants; the cost of furnishing to the several Underwriters copies of the Registration Statement (including appropriate exhibits), Preliminary Prospectus and the Prospectus, and any amendments or supplements to any of the foregoing; NASD filing fees and the cost of qualifying the Shares under the laws of such jurisdictions as you may designate (including filing fees and fees and disbursements of Underwriters' Counsel in connection with such NASD filings and Blue Sky qualifications); and all other expenses directly incurred by the Company and the Selling Shareholders in connection with the performance of their obligations hereunder. Any additional expenses incurred as a result of the sale of the Shares by the Selling Shareholders will be borne collectively by the Company and the Selling Shareholders. The provisions of this Section 6(a)(i) are intended to relieve the Underwriters from the payment of the expenses and costs which the Selling Shareholders and the Company hereby agree to pay, but shall not affect any agreement which the Selling Shareholders and the Company may make, or may have made, for the sharing of any of such expenses and costs. Such agreements shall not impair the obligations of the Company and the Selling Shareholders hereunder to the several Underwriters.

(ii) In addition to its other obligations under Section 9(a) hereof, the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 9(a) hereof, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses

incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Company together with interest, compounded daily, determined on the basis of the prime rate (or other commercial lending rate for borrowers of the highest credit standing) set forth from time to time in The Wall Street Journal which represents the base rate on corporate loans posted by at least seventy-five percent (75%) of the nation's thirty (30) largest banks (the "Prime Rate"). Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(iii) In addition to their other obligations under Section 9(b) hereof, each Selling Shareholder agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 9(b) hereof relating to such Selling Shareholder, it will reimburse the Underwriters on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of such Selling Shareholder's obligation to reimburse the Underwriters for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Underwriters shall promptly return such payment to the Selling Shareholders, together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Underwriters within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(b) In addition to their other obligations under Section 9(c) hereof, the Underwriters severally and not jointly agree that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding described in Section 9(c) hereof, they will reimburse the Company and each Selling Shareholder on a monthly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Underwriters' obligation to reimburse the Company and each such Selling Shareholder for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, the Company and each such Selling Shareholder shall promptly return such payment to the Underwriters together with interest, compounded daily, determined on the basis of the Prime Rate. Any such interim reimbursement payments which are not made to the Company and each such Selling Shareholder within thirty (30) days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request.

(c) It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 6(a)(ii), 6(a)(iii) and 6(b) hereof, including the amounts of any requested reimbursement payments, the method of determining such amounts and the basis on which such amounts shall be apportioned among the reimbursing parties, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Any such arbitration will be limited to the operation of the interim reimbursement provisions contained in Sections 6(a)(ii), 6(a)(iii) and 6(b) hereof and will not resolve the ultimate propriety or enforceability of the obligation to indemnify for expenses which is created by the provisions of Sections 9(a), 9(b) and 9(c) hereof or the obligation to contribute to expenses which is created by the provisions of Section 9(e) hereof.

7. Conditions of Underwriters' Obligations. The obligations of the several Underwriters to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date and any later date on which Option Shares are to be purchased, as the case may be, of the representations and warranties of the Company and the Selling Shareholders herein, to the performance by the Company and the Selling Shareholders of their respective obligations hereunder and to the following additional conditions:

(a) The Registration Statement shall have become effective not later than 2:00 P.M., San Francisco time, on the date following the date of this Agreement, or such later date as shall be consented to in writing by you; and no stop order suspending the effectiveness thereof shall have been issued and no proceedings for that purpose shall have been initiated or, to the knowledge of the Company, any Selling Shareholder or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the satisfaction of Underwriters' Counsel.

(b) All corporate proceedings and other legal matters in connection with this Agreement, the form of Registration Statement and the Prospectus, and the registration, authorization, issue, sale and delivery of the Shares, shall have been reasonably satisfactory to Underwriters' Counsel, and such counsel shall have been furnished with such papers and information as they may reasonably have requested to enable them to pass upon the matters referred to in this Section.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, there shall not have been any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment,

impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus.

(d) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, the following opinion of counsel for the Company and the Selling Shareholders, dated the Closing Date or such later date on which Option Shares are to be purchased addressed to the Underwriters and with reproduced copies or signed counterparts thereof for each of the Underwriters, to the effect that:

(i) The Company and each Significant Subsidiary (as that term is defined in Regulation S-X promulgated under the Act) has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation;

(ii) The Company and each Significant Subsidiary has the corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Prospectus;

(iii) The Company and each Significant Subsidiary is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction, if any, in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the condition (financial or otherwise), earnings, operations or business of the Company and its subsidiaries considered as one enterprise. To such counsel's knowledge, the Company does not own or control, directly or indirectly, any corporation, association or other entity other than Rapiscan Security Products (U.S.A.), Inc., Rapiscan Security Products Limited, Ferson Optics, Inc., UDT Sensors, Inc., [Ecil Rapiscan Security Products Limited], AME, Opto Sensors (Singapore) Pte Ltd, Opto Sensors (Malaysia) Sdn. Bhd., [OSI Electronics and Rapiscan Consortium (M) Sdn. Bhd.];

(iv) The authorized, issued and outstanding capital stock of the Company is as set forth in the Prospectus under the caption "Capitalization" as of the dates stated therein, the issued and outstanding shares of capital stock of the Company (including the Selling Shareholder Shares) have been duly and validly issued and are fully paid and nonassessable, and, to such counsel's knowledge, have not been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right;

(v) All issued and outstanding shares of capital stock of each Significant Subsidiary of the Company have been duly authorized and validly issued and are fully paid and nonassessable, and, to such counsel's knowledge, have not been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right and are owned

by the Company free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest;

(vi) The Firm Shares to be issued by the Company and the Firm Shares and Option Shares to be purchased from the Selling Shareholders pursuant to the terms of this Agreement have been duly authorized and, upon issuance and delivery against payment therefor in accordance with the terms hereof, will be duly and validly issued and fully paid and nonassessable, and will not have been issued in violation of or subject to any preemptive right, co-sale right, registration right, right of first refusal or other similar right.

(vii) The Company has the corporate power and authority to enter into this Agreement and to issue, sell and deliver to the Underwriters the Shares to be issued and sold by it hereunder;

(viii) This Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company and, assuming due authorization, execution and delivery by you, is a valid and binding agreement of the Company, enforceable in accordance with its terms, except insofar as indemnification provisions may be limited by applicable law and except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(ix) The Registration Statement has become effective under the Act and, to such counsel's knowledge, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(x) The Registration Statement and the Prospectus, and each amendment or supplement thereto (other than the financial statements (including supporting schedules) and financial data derived therefrom as to which such counsel need express no opinion), as of the effective date of the Registration Statement, complied as to form in all material respects with the requirements of the Act and the applicable Rules and Regulations;

(xi) The information in the Prospectus under the caption "Description of Capital Stock," to the extent that it constitutes matters of law or legal conclusions, has been reviewed by such counsel and is a fair summary of such matters and conclusions; and the forms of certificates evidencing the Common Stock and filed as exhibits to the Registration Statement comply with California law;

(xii) The description in the Registration Statement and the Prospectus of the charter and bylaws of the Company and of statutes are accurate

and fairly present the information required to be presented by the Act and the applicable Rules and Regulations;

(xiii) To such counsel's knowledge, there are no agreements, contracts, leases or documents to which the Company is a party of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as an exhibit to the Registration Statement which are not described or referred to therein or filed as required;

(xiv) The performance of this Agreement and the consummation of the transactions herein contemplated (other than performance of the Company's indemnification obligations hereunder, concerning which no opinion need be expressed) will not (a) result in any violation of the Company's charter or bylaws or (b) to such counsel's knowledge, result in a material breach or violation of any of the terms and provisions of, or constitute a default under, any bond, debenture, note or other evidence of indebtedness, or any lease, contract, indenture, mortgage, deed of trust, loan agreement, joint venture or other agreement or instrument known to such counsel to which the Company is a party or by which its properties are bound, or any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations;

(xv) No consent, approval, authorization or order of or qualification with any court, government or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations is necessary in connection with the consummation by the Company of the transactions herein contemplated, except such as have been obtained under the Act or such as may be required under state or other securities or Blue Sky laws in connection with the purchase and the distribution of the Shares by the Underwriters;

(xvi) To such counsel's knowledge, there are no legal or governmental proceedings pending or threatened against the Company, or any of its subsidiaries, of a character required to be disclosed in the Registration Statement or the Prospectus by the Act or the Rules and Regulations other than those described therein;

(xvii) To such counsel's knowledge, neither the Company nor any of its subsidiaries is presently (a) in material violation of its respective charter or bylaws, or (b) in material breach of any applicable statute, rule or regulation known to such counsel or, to such counsel's knowledge, any order, writ or decree of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries, or over any of their properties or operations;

(xviii) To such counsel's knowledge, except as set forth in the Registration Statement and Prospectus, no holders of Common Stock or other securities of the Company have registration rights with respect to the offer and sale of any securities of the Company and, except as set forth in the Registration Statement and Prospectus, all prior holders of such registration rights have waived such rights or such rights have expired by reason of lapse of time following notification of the Company's intent to file the Registration Statement or have included securities in the Registration Statement pursuant to the exercise, and in full satisfaction, of such rights;

(xix) Each Selling Shareholder which is not a natural person has full right, power and authority to enter into and to perform its obligations under the Power of Attorney and Custody Agreement to be executed and delivered by it in connection with the transactions contemplated herein; the Power of Attorney and Custody Agreement of each Selling Shareholder that is not a natural person has been duly authorized by all necessary action on the part of such Selling Shareholder; the Power of Attorney and Custody Agreement of each Selling Shareholder has been duly executed and delivered by or on behalf of such Selling Shareholder; and the Power of Attorney and Custody Agreement of each Selling Shareholder constitutes the valid and binding agreement of such Selling Shareholder, enforceable in accordance with its terms, except as the enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting creditors' rights generally or by general equitable principles;

(xx) Each of the Selling Shareholders has full right, power and authority to enter into and to perform its obligations under this Agreement and to sell, transfer, assign and deliver the Shares to be sold by such Selling Shareholder hereunder;

(xxi) This Agreement has been duly authorized by each Selling Shareholder that is not a natural person and has been duly executed and delivered by or on behalf of each Selling Shareholder; and

(xxii) Upon the delivery of, and payment for, the Shares as contemplated by this Agreement, each of the Underwriters will receive valid marketable title to the Shares purchased by it from such Selling Shareholder, free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest. In rendering such opinion, such counsel may assume that the Underwriters are without notice of any defect in the title of the Shares being purchased from the Selling Shareholders.

In addition, such counsel shall state that such counsel has participated in conferences with officials and other representatives of the Company, the Representatives, Underwriters' Counsel and the independent certified public accountants of the Company, at which conferences the contents of the Registration Statement and Prospectus and related matters were

discussed, and although they have not verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, nothing has come to the attention of such counsel which leads them to believe that, at the time the Registration Statement became effective and at all times subsequent thereto up to and on the Closing Date and on any later date on which Option Shares are to be purchased, the Registration Statement and any amendment or supplement thereto (other than the financial statements, including supporting schedules and other financial and statistical information derived therefrom, as to which such counsel need express no comment) contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or at the Closing Date or any later date on which the Option Shares are to be purchased, as the case may be, the Registration Statement, the Prospectus and any amendment or supplement thereto (except as aforesaid) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

Counsel rendering the foregoing opinion may rely as to questions of law not involving the laws of the United States or the State of California upon opinions of local counsel, and as to questions of fact upon representations or certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person), and of government officials, in which case their opinion is to state that they are so relying and that they have no knowledge of any material misstatement or inaccuracy in any such opinion, representation or certificate. Copies of any opinion, representation or certificate so relied upon shall be delivered to you, as Representatives of the Underwriters, and to Underwriters' Counsel.

(e) You shall have received on the Closing Date and on any later date on which Option Shares to be purchased, as the case may be, an opinion of Jones, Day, Reavis & Pogue, in form and substance satisfactory to you, with respect to the sufficiency of all such corporate proceedings and other legal matters relating to this Agreement and the transactions contemplated hereby as you may reasonably require, and the Company shall have furnished to such counsel such documents as they may have requested for the purpose of enabling them to pass upon such matters.

(f) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a letter from Deloitte & Touche LLP addressed to the Underwriters, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, confirming that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations and based upon the procedures described in such letter delivered to you concurrently with the execution of this Agreement (herein called the "Original Letter"), but carried out to a date not more than five (5) business days prior to the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, (i) confirming, to the extent true, that the statements and conclusions set forth in the Original Letter are accurate as of the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, and (ii) setting forth any revisions and additions to the statements and conclusions set forth in the Original Letter which are necessary to reflect any changes in the facts described in the

Original Letter since the date of such letter, or to reflect the availability of more recent financial statements, data or information. The letter shall not disclose any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse and that makes it, in your sole judgment, impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. The Original Letter from Deloitte & Touche LLP shall be addressed to or for the use of the Underwriters in form and substance satisfactory to the Underwriters and shall (i) represent, to the extent true, that they are independent certified public accountants with respect to the Company within the meaning of the Act and the applicable published Rules and Regulations, (ii) set forth their opinion with respect to their examination of the consolidated balance sheet of the Company at June 30, 1996 and 1995 and March 31, 1997 and related consolidated statements of operations, shareholders' equity, and cash flows for the twelve (12) months ended June 30, 1996, 1995 and 1994 and the nine (9) months ended March 31, 1997, [(iii) state that Deloitte & Touche LLP has performed the procedures set out in Statement on Auditing Standards No. 71 ("SAS 71") for a review of interim financial information and providing the report of Deloitte & Touche LLP, as described in SAS 71 on the financial statements for each of the quarters in the three-quarter period ended March 31, 1997 (the "Quarterly Financial Statements"),] (iv) state that in the course of such review, nothing came to their attention that leads them to believe that any material modifications need to be made to any of the Quarterly Financial Statements in order for them to be in compliance with generally accepted accounting principles consistently applied across the periods presented, and (v) address other matters agreed upon by Deloitte & Touche LLP and you. In addition, you shall have received from Deloitte & Touche LLP a letter addressed to the Company and made available to you for the use of the Underwriters stating that their review of the Company's system of internal accounting controls, to the extent they deemed necessary in establishing the scope of their examination of the Company's consolidated financial statements at June 30, 1996 and 1995 and March 31, 1997, did not disclose any weaknesses in internal controls that they considered to be material weaknesses.

(g) You shall have received on the Closing Date and on any later date on which Option Shares are to be purchased, as the case may be, a certificate of the Company, dated the Closing Date or such later date on which Option Shares are to be purchased, as the case may be, signed by the Chief Executive Officer and Chief Financial Officer of the Company, to the effect that, and you shall be satisfied that:

(i) The representations and warranties of the Company in this Agreement are true and correct, as if made on and as of the Closing Date or any later date on which Option Shares are to be purchased, as the case may be, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or are pending or threatened under the Act;

(iii) When the Registration Statement became effective and at all times subsequent thereto up to the delivery of such certificate, the Registration Statement and the Prospectus, and any amendments or supplements thereto, contained all material information required to be included therein by the Act and the Rules and Regulations and in all material respects conformed to the requirements of the Act and the Rules and Regulations, the Registration Statement, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, the Prospectus, and any amendment or supplement thereto, did not and does not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and, since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amended or supplemented Prospectus which has not been so set forth; and

(iv) Subsequent to the respective dates as of which information is given in the Registration Statement and Prospectus, there has not been (a) any material adverse change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise, (b) any transaction that is material to the Company and its subsidiaries considered as one enterprise, except transactions entered into in the ordinary course of business, (c) any obligation, direct or contingent, that is material to the Company and its subsidiaries considered as one enterprise, incurred by the Company or its subsidiaries, except obligations incurred in the ordinary course of business, (d) any change in the capital stock or outstanding indebtedness of the Company or any of its subsidiaries that is material to the Company and its subsidiaries considered as one enterprise, (e) any dividend or distribution of any kind declared, paid or made on the capital stock of the Company or any of its subsidiaries, or (f) any loss or damage (whether or not insured) to the property of the Company or any of its subsidiaries which has been sustained or will have been sustained which has a material adverse effect on the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise.

(h) You shall be satisfied that, and you shall have received a certificate, dated the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, from the Attorney for each Selling Shareholder to the effect that, as of the Closing Date, or any later date on which Option Shares are to be purchased, as the case may be, they have not been informed that:

(i) The representations and warranties made by such Selling Shareholder herein are not true or correct in any material respect on the Closing Date or on any later date on which Option Shares are to be purchased, as the case may be; or

(ii) Such Selling Shareholder has not complied with any obligation or satisfied any condition which is required to be performed or satisfied on the part of such Selling Shareholder at or prior to the Closing Date or any later date on which Option Shares are to be purchased, as the case may be.

(i) The Company shall have obtained and delivered to you an agreement from each officer and director of the Company, each Selling Shareholder and each beneficial owner of shares of Common Stock as reflected on Exhibit A attached hereto in writing prior to the date hereof that such person will not, during the Lock-up Period, effect the Disposition of any Securities now owned or hereafter acquired directly by such person or with respect to which such person has or hereafter acquires the power of disposition, otherwise than (i) as a bona fide gift or gifts, provided the donee or donees thereof agree in writing to be bound by this restriction, (ii) as a distribution to partners or shareholders of such person, provided that the distributees thereof agree in writing to be bound by the terms of this restriction, or (iii) with the prior written consent of Robertson, Stephens & Company LLC. The foregoing restriction shall have been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction which is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than the such holder. Such prohibited hedging or other transactions would including, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from Securities. Furthermore, such person will have also agreed and consented to the entry of stop transfer instructions with the Company's transfer agent against the transfer of the Securities held by such person except in compliance with this restriction.

(j) The Company and the Selling Shareholders shall have furnished to you such further certificates and documents as you shall reasonably request (including certificates of officers of the Company, the Selling Shareholders or officers of the Selling Shareholders (when the Selling Shareholder is not a natural person) as to the accuracy of the representations and warranties of the Company and the Selling Shareholders herein, as to the performance by the Company and the Selling Shareholders of their respective obligations hereunder and as to the other conditions concurrent and precedent to the obligations of the Underwriters hereunder.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are reasonably satisfactory to Underwriters' Counsel. The Company and the Selling Shareholders will furnish you with such number of conformed copies of such opinions, certificates, letters and documents as you shall reasonably request.

8. Option Shares.

(a) On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Selling Shareholders set forth on Schedule C hereto hereby grant to the several Underwriters, for the purpose of covering

over-allotments in connection with the distribution and sale of the Firm Shares only, a nontransferable option to purchase up to an aggregate of 555,000 Option Shares at the purchase price per share for the Firm Shares set forth in Section 4 hereof. The number of Option Shares to be purchased from each Selling Shareholder listed on Schedule C shall be in the same proportion that the number of shares listed across from each such Selling Shareholder's name bears to the total number of Shares listed on Schedule C. Such option may be exercised by the Representatives on behalf of the several Underwriters on one (1) or more occasions in whole or in part during the period of thirty (30) days after the date on which the Firm Shares are initially offered to the public, by giving written notice to the Company and the Custodian. The number of Option Shares to be purchased by each Underwriter from each of such Selling Shareholders set forth on Schedule C upon the exercise of such option shall be in the same proportion as the number of Firm Shares purchased by such Underwriter (set forth in Schedule A hereto) bears to the total number of Firm Shares purchased by the several Underwriters (set forth in Schedule A hereto), adjusted by the Representatives in such manner as to avoid fractional shares.

Delivery of definitive certificates for the Option Shares to be purchased by the several Underwriters pursuant to the exercise of the option granted by this Section 8 shall be made against payment of the purchase price therefor by the several Underwriters by certified or official bank check or checks drawn in next-day funds, payable to the order of the Custodian (and the Custodian agrees not to deposit any such check in the bank on which it is drawn, and not to take any other action with the purpose or effect of receiving immediately available funds, until the business day following the date of its delivery to the Custodian). In the event of any breach of the foregoing, the Selling Stockholders set forth on Schedule C, severally and not jointly, shall reimburse the Underwriters for the interest lost and any other expenses borne by them by reason of such breach. Such delivery and payment shall take place at the offices of Troy & Gould, 1801 Century Park East, 16th Floor, Los Angeles, California 90067, or at such other place as may be agreed upon among the Representatives, the Company and the Custodian (i) on the Closing Date, if written notice of the exercise of such option is received by the Company and the Custodian at least two (2) full business days prior to the Closing Date, or (ii) on a date which shall not be later than the third (3rd) full business day following the date the Company and Custodian receive written notice of the exercise of such option, if such notice is received by the Company and Custodian less than two (2) full business days prior to the Closing Date.

The certificates for the Option Shares to be so delivered will be made available to you for examination at such office or such other location including, without limitation, in Chicago, as you may reasonably request at least one (1) full business day prior to the date of payment and delivery and will be in such names and denominations as you may request, such request to be made at least two (2) full business days prior to such date of payment and delivery. If the Representatives so elect, delivery of the Option Shares may be made by credit through full fast transfer to the accounts at The Depository Trust Company designated by the Representatives.

It is understood that you, individually, and not as the Representatives of the several Underwriters, may (but shall not be obligated to) make payment of the purchase price on behalf of any Underwriter or Underwriters whose check or checks shall not have been

received by you prior to the date of payment and delivery for the Option Shares to be purchased by such Underwriter or Underwriters. Any such payment by you shall not relieve any such Underwriter or Underwriters of any of its or their obligations hereunder.

(b) Upon exercise of any option provided for in Section 8(a) hereof, the obligations of the several Underwriters to purchase such Option Shares will be subject (as of the date hereof and as of the date of payment and delivery for such Option Shares) to the accuracy of and compliance with the representations, warranties and agreements of the Company and the Selling Shareholders herein, to the accuracy of the statements of the Company, the Selling Shareholders and officers of the Company made pursuant to the provisions hereof, to the performance by the Company and the Selling Shareholders of their respective obligations hereunder, to the conditions set forth in Section 7 hereof, and to the condition that all proceedings taken at or prior to the payment date in connection with the sale and transfer of such Option Shares shall be satisfactory in form and substance to you and to Underwriters' Counsel, and you shall have been furnished with all such documents, certificates and opinions as you may request in order to evidence the accuracy and completeness of any of the representations, warranties or statements, the performance of any of the covenants or agreements of the Company and the Selling Shareholders or the satisfaction of any of the conditions herein contained.

9. Indemnification and Contribution.

(a) The Company agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E of the Bylaws of the NASD), under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of the Company herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company shall not be
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liable in any such case to the extent that any such loss, claim, damage, liability or action arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, such Preliminary Prospectus or the Prospectus, or any such amendment or supplement thereto, in reliance upon, and in conformity with, written information relating to any Underwriter furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof and, provided further, that the indemnity agreement provided in this
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Section 9(a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person

asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 5(d) hereof.

The indemnity agreement in this Section 9(a) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

(b) Each Selling Shareholder, severally and not jointly, agrees to indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject (including, without limitation, in its capacity as an Underwriter or as a "qualified independent underwriter" within the meaning of Schedule E or the Bylaws of the NASD) under the Act, the Exchange Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Selling Shareholder herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 9(b) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company or such Underwriter by such Selling Shareholder, directly or through such Selling Shareholder's representatives, specifically for use in the preparation thereof, and agrees to reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement
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provided in this Section 9(b) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any losses, claims, damages, liabilities or actions based upon any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state therein a material fact purchased Shares, if a copy of the Prospectus in which such untrue statement or alleged untrue statement or omission or alleged omission was corrected had not been sent or given to such person within the time required by the Act and the Rules and Regulations, unless such failure is the result of noncompliance by the Company with Section 5(d) hereof.

The indemnity agreement in this Section 9(b) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls

any Underwriter within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which such Selling Shareholder may otherwise have.

(c) Each Underwriter, severally and not jointly, agrees to indemnify and hold harmless the Company and each Selling Shareholder against any losses, claims, damages or liabilities, joint or several, to which the Company or such Selling Shareholder may become subject under the Act or otherwise, specifically including, but not limited to, losses, claims, damages or liabilities (or actions in respect thereof) arising out of or based upon (i) any breach of any representation, warranty, agreement or covenant of such Underwriter herein contained, (ii) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (iii) any untrue statement or alleged untrue statement of any material fact contained in any Preliminary Prospectus or the Prospectus or any amendment or supplement thereto, or the omission or alleged omission to state therein a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, in the case of subparagraphs (ii) and (iii) of this Section 9(c) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by such Underwriter, directly or through you, specifically for use in the preparation thereof, and agrees to reimburse the Company and each such Selling Shareholder for any legal or other expenses reasonably incurred by the Company and each such Selling Shareholder in connection with investigating or defending any such loss, claim, damage, liability or action.

The indemnity agreement in this Section 9(c) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each officer of the Company who signed the Registration Statement and each director of the Company, each Selling Shareholder and each person, if any, who controls the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act. This indemnity agreement shall be in addition to any liabilities which each Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against any indemnifying party under this Section 9, notify the indemnifying party in writing of the commencement thereof but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 9. In case any such action is brought against any indemnified party, and it notified the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it shall elect by written notice delivered to the indemnified party promptly after receiving the aforesaid notice from such indemnified party, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if the defendants in any such action
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include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal

defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of the indemnifying party's election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel (together with appropriate local counsel) approved by the indemnifying party representing all the indemnified parties under Section 9(a), 9(b) or 9(c) hereof who are parties to such action), (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of the action or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. In no event shall any indemnifying party be liable in respect of any amounts paid in settlement of any action unless the indemnifying party shall have approved the terms of such settlement; provided that such
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consent shall not be unreasonably withheld. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnification could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on all claims that are the subject matter of such proceeding.

(e) In order to provide for just and equitable contribution in any action in which a claim for indemnification is made pursuant to this Section 9 but it is judicially determined (by the entry of a final judgment or decree by a court of competent jurisdiction and the expiration of time to appeal or the denial of the last right of appeal) that such indemnification may not be enforced in such case notwithstanding the fact that this Section 9 provides for indemnification in such case, all the parties hereto shall contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that, except as set forth in Section 9(f) hereof, the Underwriters severally and not jointly are responsible pro-rata for the portion represented by the percentage that the underwriting discount bears to the initial public offering price, and the Company and the Selling Shareholders are responsible for the remaining portion, provided, however, that (i) no Underwriter shall be required to contribute any
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amount in excess of the amount by which the underwriting discount applicable to the Shares purchased by such Underwriter exceeds the amount of damages which such Underwriter has otherwise required to pay and (ii) no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The contribution agreement in this Section 9(e) shall extend upon the same terms and conditions to, and shall inure to the benefit of, each person, if any, who controls any Underwriter, the Company or any Selling Shareholder within the meaning of the Act or the Exchange Act and each officer of the Company who signed the Registration Statement and each director of the Company.

(f) The liability of each Selling Shareholder under the representations, warranties and agreements contained herein and under the indemnity agreements contained in the

provisions of this Section 9 shall be limited to an amount equal to the initial public offering price of the Selling Shareholder Shares sold by such Selling Shareholder to the Underwriters minus the amount of the underwriting discount paid thereon to the Underwriters by such Selling Shareholder. The Company and such Selling Shareholders may agree, as among themselves and without limiting the rights of the Underwriters under this Agreement, as to the respective amounts of such liability for which they each shall be responsible.

(g) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 9, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 9 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act.

10. Representations, Warranties, Covenants and Agreements to Survive Delivery. All representations, warranties, covenants and agreements of the Company, the Selling Shareholders and the Underwriters herein or in certificates delivered pursuant hereto, and the indemnity and contribution agreements contained in Section 9 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any person controlling any Underwriter within the meaning of the Act or the Exchange Act, or by or on behalf of the Company or any Selling Shareholder, or any of their officers, directors or controlling persons within the meaning of the Act, or the Exchange Act, and shall survive the delivery of the Shares to the several Underwriters hereunder or termination of this Agreement.

11. Substitution of Underwriters. If any Underwriter or Underwriters shall fail to take up and pay for the number of Firm Shares agreed by such Underwriter or Underwriters to be purchased hereunder upon tender of such Firm Shares in accordance with the terms hereof, and if the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters so agreed but failed to purchase does not exceed 10% of the Firm Shares, the remaining Underwriters shall be obligated, severally in proportion to their respective commitments hereunder, to take up and pay for the Firm Shares of such defaulting Underwriter or Underwriters.

If any Underwriter or Underwriters so defaults and the aggregate number of Firm Shares which such defaulting Underwriter or Underwriters agreed but failed to take up and pay for exceeds 10% of the Firm Shares, the remaining Underwriters shall have the right, but shall not be obligated, to take up and pay for (in such proportions as may be agreed upon among them) the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If such remaining Underwriters do not, at the Closing Date, take up and pay for the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase, the Closing Date shall be postponed for twenty-four (24) hours to allow the several Underwriters the privilege of substituting within twenty-four (24) hours (including non-business hours) another underwriter or underwriters (which may include any nondefaulting Underwriter) satisfactory to the Company. If no such underwriter or underwriters shall have been substituted as aforesaid by such postponed Closing Date, the Closing Date may, at the option of the

Company, be postponed for a further twenty-four (24) hours, if necessary, to allow the Company the privilege of finding another underwriter or underwriters, satisfactory to you, to purchase the Firm Shares which the defaulting Underwriter or Underwriters so agreed but failed to purchase. If it shall be arranged for the remaining Underwriters or substituted underwriter or underwriters to take up the Firm Shares of the defaulting Underwriter or Underwriters as provided in this Section 11, (i) the Company shall have the right to postpone the time of delivery for a period of not more than seven (7) full business days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees promptly to file any amendments to the Registration Statement, supplements to the Prospectus or other such documents which may thereby be made necessary, and (ii) the respective number of Firm Shares to be purchased by the remaining Underwriters and substituted underwriter or underwriters shall be taken as the basis of their underwriting obligation. If the remaining Underwriters shall not take up and pay for all such Firm Shares so agreed to be purchased by the defaulting Underwriter or Underwriters or substitute another underwriter or underwriters as aforesaid and the Company shall not find or shall not elect to seek another underwriter or underwriters for such Firm Shares as aforesaid, then this Agreement shall terminate.

In the event of any termination of this Agreement pursuant to the preceding paragraph of this Section 11, neither the Company nor any Selling Shareholder shall be liable to any Underwriter (except as provided in Sections 6 and 9 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the number of Firm Shares agreed by such Underwriter to be purchased hereunder, which Underwriter shall remain liable to the Company, the Selling Shareholders and the other Underwriters for damages, if any, resulting from such default) be liable to the Company or any Selling Shareholder (except to the extent provided in Sections 6 and 9 hereof).

The term "Underwriter" in this Agreement shall include any person substituted for an Underwriter pursuant to the terms of this Section 11.

12. Effective Date of this Agreement and Termination.

(a) This Agreement shall become effective at the earlier of (i) 6:30 A.M., San Francisco time, on the first full business day following the effective date of the Registration Statement, or (ii) the time of the initial public offering of any of the Shares by the Underwriters after the Registration Statement becomes effective. The time of the initial public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement relating to the Shares, or the time at which the Shares are first generally offered by the Underwriters to the public by letter, telephone, telegram or telecopy, whichever shall first occur. By giving notice as set forth in Section 13 before the time this Agreement becomes effective, you, as Representatives of the several Underwriters, or the Company, may prevent this Agreement from becoming effective without liability of any party to any other party, except as provided in Sections 5(j), 6 and 9 hereof.

(b) You, as Representatives of the several Underwriters, shall have the right to terminate this Agreement by giving notice as hereinafter specified at any time on or prior

to the Closing Date or on or prior to any later date on which Option Shares are to be purchased, as the case may be, (i) if the Company or any Selling Shareholder shall have failed, refused or been unable to perform any agreement on its part to be performed, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled is not fulfilled, including, without limitation, any change in the condition (financial or otherwise), earnings, operations, business or business prospects of the Company and its subsidiaries considered as one enterprise from that set forth in the Registration Statement or Prospectus, which, in your sole judgment, is material and adverse, or (ii) if additional material governmental restrictions, not in force and effect on the date hereof, shall have been imposed upon trading in securities generally or minimum or maximum prices shall have been generally established on the New York Stock Exchange or on the American Stock Exchange or in the over the counter market by the NASD, or trading in securities generally shall have been suspended on either such exchange or in the over the counter market by the NASD, or if a banking moratorium shall have been declared by federal, New York or California authorities, or (iii) if the Company shall have sustained a loss by strike, fire, flood, earthquake, accident or other calamity of such character as to interfere materially with the conduct of the business and operations of the Company regardless of whether or not such loss shall have been insured, or (iv) if there shall have been a material adverse change in the general political or economic conditions or financial markets as in your reasonable judgment makes it inadvisable or impracticable to proceed with the offering, sale and delivery of the Shares, or (v) if there shall have been an outbreak or escalation of hostilities or of any other insurrection or armed conflict or the declaration by the United States of a national emergency which, in the reasonable opinion of the Representatives, makes it impracticable or inadvisable to proceed with the public offering of the Shares as contemplated by the Prospectus. In the event of termination pursuant to subparagraph (i) above, the Company shall remain obligated to pay costs and expenses pursuant to Sections 5(j), 6 and 9 hereof. Any termination pursuant to any of subparagraphs (ii) through (v) above shall be without liability of any party to any other party except as provided in Sections 6 and 9 hereof.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section 12, you shall promptly notify the Company by telephone, telecopy or telegram, in each case confirmed by letter. If the Company shall elect to prevent this Agreement from becoming effective, the Company shall promptly notify you by telephone, telecopy or telegram, in each case, confirmed by letter.

13. Notices. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to you shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to you c/o Robertson, Stephens & Company LLC, 555 California Street, Suite 2600, San Francisco, California 94104, telecopier number (415) 781-0278, Attention: General Counsel; if sent to the Company, such notice shall be mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to 12525 Chadron Avenue, Hawthorne, California 90250, telecopier number (310) 644-1727, Attention: Deepak Chopra, Chief Executive Officer; if sent to one or more of the Selling Shareholders, such notice shall be sent mailed, delivered, telegraphed (and confirmed by letter) or telecopied (and confirmed by letter) to Deepak Chopra, as Attorney-in-Fact for the Selling Shareholders, at 12525 Chadron Avenue, Hawthorne, California 90250, telecopier number (310) 644-1727.

14. Parties. This Agreement shall inure to the benefit of and be binding upon the several Underwriters and the Company and the Selling Shareholders and their respective executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person or entity, other than the parties hereto and their respective executors, administrators, successors and assigns, and the controlling persons within the meaning of the Act or the Exchange Act, officers and directors referred to in Section 9 hereof, any legal or equitable right, remedy or claim in respect of this Agreement or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective executors, administrators, successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person or entity. No purchaser of any of the Shares from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings with the Company and the Selling Shareholders under this Agreement, you shall act on behalf of each of the several Underwriters, and the Company and the Selling Shareholders shall be entitled to act and rely upon any statement, request, notice or agreement made or given by you jointly or by Robertson, Stephens & Company LLC on behalf of you.

15. Applicable Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of California without regard to principles of conflict of law.

16. Counterparts. This Agreement may be signed in several counterparts, each of which will constitute an original.

If the foregoing correctly sets forth the understanding among the Company, the Selling Shareholders and the several Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Company, the Selling Shareholders and the several Underwriters.

Very truly yours,

OPTO SENSORS, INC.

By:_____
Name:_____
Its:_____

SELLING SHAREHOLDERS

By:_____
Attorney-in-Fact for the Selling Shareholders named in Schedules B and C hereto

Accepted as of the date first above written:

ROBERTSON, STEPHENS & COMPANY LLC
WILLIAM BLAIR & COMPANY, L.L.C.
VOLPE BROWN WHELAN & COMPANY LLC

On their behalf and on behalf of each of the several Underwriters named in Schedule A hereto.

By: ROBERTSON, STEPHENS & COMPANY LLC

By: ROBERTSON, STEPHENS & COMPANY GROUP, L.L.C.

By:_____
Name:_____
Its:_____

SCHEDULE A

Underwriters	Number of Firm Shares To Be Purchased
Robertson, Stephens & Company LLC.....	_____
William Blair & Company, L.L.C.....	_____
Volpe Brown Whelan & Company LLC.....	_____
Total.....	_____

SCHEDULE B

Firm Shares

Company	Number of Company Shares To Be Sold
Total	

Name of Selling Shareholder	Number of Selling Shareholder Shares To Be Sold
Scope Industries	148,148
Sally Chamberlain Trustee, Ed and Sally Fleischer Trust	47,593
Cynthia G. Fleischer	15,750
Gary F. Fleischer	14,625
Cathleen A. Fleischer	14,625
Madan and Mohini Syal	25,926
Good Swartz Berns Pension Fund	3,000
Steve Cary Good and Anne Good Trust	13,831
Steve Good	8,065
Mark & Penny Berns Trust	5,982
Arnold & Hope Anisgarten	5,709
Rajiv Mehra	450
Zev and Elaine Edelstein Trust	9,259
Glen Sorenson	9,259
Mohinder and Ranjana Chopra	9,259
Charles/Kiran Kerpelman	9,259
Martha Holmes	9,259
Tehari & Durya Rangawala	7,407
Leila/Birendra Mehra	3,704
Surendra Jain M.D., Inc	5,186
Renu Jivrajka	1,852
Amita Jivrajka	1,852
Total	370,000

SCHEDULE C

Option Shares

Name of Selling Shareholder	Number of Shareholder Shares To Be Sold
Scope Industries	79,260
Sally Chamberlain Trustee, Ed and Sally Fleischer Trust	49,630
Deepak and Nandini Chopra	185,185
Madan and Mohini Syal	18,519
Ajay Mehra	33,333
Good Swartz Berns Pension Fund	3,309
Steve Cary Good and Anne Good Trust	8,669
Steve Good	6,935
Mark & Penny Berns Trust	1,518
Arnold & Hope Anisgarten	1,791
Andreas Kotowski	18,519
Zev and Elaine Edelstein Trust	9,259
Glen Sorenson	11,111
Mohinder and Ranjana Chopra	11,111
Manoocher Mansouri	14,815
Charles/Kiran Kerpelman	9,259
Martha Holmes	9,259
Tehari & Durya Rangawala	7,407
Sue Sutherland	7,407
Anuj Wadhawan	7,407
Bette Moore	7,407
Thomas Hickman	3,704
Robert Kephart	5,556
Phillip M. Wascher	7,407
Narayan Taneja	1,481
Leila/Birendra Mehra	3,704
Charan Dewan	3,704
Jack Kimbro	1,111
Surendra Jain M.D., Inc	1,243
Surendra and Kala Jain	4,683
Meyer & Doreen Luskin Trustee of Meyer & Doreen Luskin Family Trust	9,259
Denis Noble	741
Anthony S. Crane & Suzie B. Crane	1,481
Neil Jivrajka	740
Renu Jivrajka	1,482
Amita Jivrajka	1,482

Name of Selling Shareholder	Number of Shareholder Shares To Be Sold
Alan J. Bernard & Pamela Barnard	1,481
Peter Bui	741
Chris Williams	741
Chris Chin	926
Louis S. and Linda O. Peters	741
Khai Le	741
Lincoln Gladden	741
Total	555,000

EXHIBIT 3.1

CERTIFICATE OF AMENDMENT AND
RESTATEMENT OF
ARTICLES OF INCORPORATION

OF

OPTO SENSORS, INC.

Deepak Chopra and Ajay Mehra certify that:

1. They are the duly appointed and acting President and Secretary, respectively, of Opto Sensors, Inc., a California corporation (the "Corporation").

2. The Articles of Incorporation of the Corporation are hereby amended and restated in their entirety as set forth on Exhibit A attached hereto.

3. The amendments herein set forth have been duly approved by the Board of Directors.

4. The amendments herein set forth have been duly approved by the required vote of the shareholders in accordance with Sections 902 and 903 of the California Corporations Code. The Corporation has two classes of shares outstanding, each of which is entitled to vote with respect to the amendments herein. The total number of outstanding shares of the Corporation entitled to vote with respect to the amendments are 2,568,750 shares of Preferred Stock and 1,517,161 shares of Common Stock. The number of shares voting in favor of the amendments equaled or exceeded the vote required. The percentage vote required was (i) a majority of the voting power of the outstanding shares of Preferred Stock and (ii) a majority of the voting power of the outstanding shares of Common Stock.

We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this certificate are true and correct of our own knowledge.

Dated: June 12, 1997

/s/ Deepak Chopra
_____
Deepak Chopra, President

/s/ Ajay Mehra
_____
Ajay Mehra, Secretary

EXHIBIT A

AMENDED AND RESTATED ARTICLES OF INCORPORATION
OF
OSI SYSTEMS, INC.

I.

The name of this corporation is OSI Systems, Inc.

II.

The purpose of this corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of California other than the banking business, the trust company business or the practice of a profession permitted to be incorporated by the California Corporations Code.

III.

A. The total number of shares of stock which this corporation shall have authority to issue is 50,000,000, consisting of 40,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock.

B. Each share of Preferred Stock outstanding as of the effective date of filing of this Amended and Restated Articles of Incorporation shall, upon the filing of this Amended and Restated Articles of Incorporation, automatically and without further action be converted into one and one-half (1.5) outstanding shares of Common Stock.

C. Each share of Common Stock outstanding as of the effective date of filing of this Amended and Restated Articles of Incorporation shall, upon the filing of this Amended and Restated Articles of Incorporation, automatically and without further action be split into one and one-half (1.5) outstanding shares of Common Stock.

D. Shareholders who would otherwise receive a fractional share of Common Stock after giving effect to the conversion of the Preferred Stock as set forth in Paragraph B above and the stock split as set forth in Paragraph C above, shall receive, in lieu of such fractional share, one whole share of Common Stock.

E. The Board of Directors is hereby empowered, by resolution or resolutions adopted from time to time, to authorize the issuance of one or more series of Preferred Stock, to fix the number of shares of any series of Preferred

Stock, and to determine the designation of any such series of Preferred Stock. The Board of Directors is also authorized to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issuance of shares of that series.

IV.

The liability of the directors of this corporation for monetary damages shall be eliminated to the fullest extent permissible under California law.

V.

This corporation is authorized to indemnify the agents (as defined in Section 317 of the Corporations Code) of this corporation to the fullest extent permissible under California law. Any amendment, repeal or modification of any provision of this Article V shall not adversely affect the right or protection of an agent of this corporation existing at the time of such amendment, repeal or modification.

EXHIBIT 3.2

AMENDED AND RESTATED BYLAWS

OF

OSI SYSTEMS, INC.

ARTICLE I

OFFICES

Section 1. PRINCIPAL OFFICES. The board of directors shall fix the location of the principal executive office of the corporation at any place within or outside the State of California. If the principal executive office is located outside this state, and the corporation has one or more business offices in this state, the board of directors shall fix and designate a principal business office in the State of California.

Section 2. OTHER OFFICES. The board of directors or officers of the corporation may at any time establish branch or subordinate offices at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 1. PLACE OF MEETINGS. Meetings of shareholders shall be held at any place within or outside the State of California designated by the board of directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

Section 2. ANNUAL MEETING. The annual meeting of shareholders shall be held each year on a date and at a time designated by the board of directors. At each annual meeting directors shall be elected, and any other proper business may be transacted.

Section 3. SPECIAL MEETING. A special meeting of the shareholders may be called at any time by the board of directors, or by the chairman of the board, or by the president, or by one or more shareholders holding shares in the aggregate entitled to cast not less than l0% of the votes at that meeting.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered

personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of Sections 4 and 5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than thirty-five (35) nor more than sixty (60) days after the receipt of the request. If the notice is not given within twenty (20) days after receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this section 3 shall be construed as limiting, fixing or affecting the time when a meeting of shareholders called by action of the board of directors may be held.

Section 4. NOTICE OF SHAREHOLDERS' MEETINGS. All notices of meetings of shareholders shall be sent or otherwise given in accordance with Section 5 of this Article II not less than ten (10) nor more than sixty (60) days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the shareholders. The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees whom, at the time of the notice, management intends to present for election.

If action is proposed to be taken at any meeting for approval of (i) a contract or transaction in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California, (ii) an amendment of the articles of incorporation, pursuant to Section 902 of that Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of that Code, (iv) a voluntary dissolution of the corporation, pursuant to Section 1900 of that Code, or (v) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of that Code, the notice shall also state the general nature of that proposal.

Section 5. MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE. Notice of any meeting of shareholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the shareholder at the address of that shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice. If no such address appears on the corporation's books or is given, notice shall be deemed to have been given if sent to that shareholder by first-class mail or telegraphic or other written communication to the corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where that office is located.

Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication.

If any notice addressed to a shareholder at the address of that shareholder appearing on the books of the corporation is returned to the corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the shareholder at that address, all future notices or reports shall be deemed to have been duly given without further mailing if these shall be available to the shareholder on written demand of the shareholder at the principal executive office of the corporation for a period of one year from the date of the giving of the notice.

An affidavit of the mailing or other means of giving any notice of any shareholders' meeting shall be executed by the secretary, assistant secretary, or any transfer agent of the corporation giving the notice, and shall be filed and maintained in the minute book of the corporation.

Section 6. QUORUM. The presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting of shareholders shall constitute a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 7. ADJOURNED MEETING; NOTICE. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shares represented at that meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at that meeting, except as provided in Section 6 of this Article II.

When any meeting of shareholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place are announced at a meeting at which the adjournment is taken, unless a new record date for the adjourned meeting is fixed, or unless the adjournment is for more than forty-five (45) days from the date set for the original meeting, in which case the board of directors shall set a new record date. Notice of any such adjourned meeting shall be given to each shareholder of record entitled to vote at the adjourned meeting in accordance with the provisions of Sections 4 and 5 of this Article II. At any adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 8. VOTING. The shareholders entitled to vote at

any meeting of shareholders shall be determined in accordance with the provisions of Section 11 of this Article II, subject to the provisions of Sections 702 to 704, inclusive, of the Corporations Code of California (relating to voting shares held by a fiduciary, in the name of a corporation, or in joint ownership). The shareholders' vote may be by voice vote or by ballot; provided, however, that any election for directors must be by ballot if demanded by any shareholder before the voting has begun. On any matter other than elections of directors, any shareholder may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the shareholder fails to specify the number of shares which the shareholder is voting affirmatively, it will be conclusively presumed that the shareholder's approving vote is with respect to all shares that the shareholder is entitled to vote. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on any matter (other than the election of directors) shall be the act of the shareholders, unless the vote of a greater number of voting by classes is required by California General Corporation Law or by the articles of incorporation.

At a shareholders' meeting at which directors are to be elected, no shareholder shall be entitled to cumulate votes (i.e., cast for any one or more candidates a number of votes greater than the number of shareholder's shares) unless the candidates' names have been placed in nomination prior to commencement of the voting and a shareholder has given notice prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected.

Section 9. WAIVER OF NOTICE OR CONSENT BY ABSENT SHAREHOLDERS. The transactions of any meeting of shareholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, who was not present in person or by proxy, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of Section 4 of this Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers,

consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance by a person at a meeting shall also constitute a waiver of notice of that meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting if that objection is expressly made at the meeting.

Section 10. SHAREHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take that action at a meeting at which all shares entitled to vote on that action were present and voted. In the case of election of directors, such a consent shall be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors; provided, however, that a director may be elected at any time to fill a vacancy on the board of directors that has not been filled by the directors, by the written consent of the holders of a majority of the outstanding shares entitled to vote for the election of directors. All such consents shall be filed with the secretary of the corporation and shall be maintained in the corporate records. Any shareholder giving a written consent, or the shareholder's proxy holders, or a transferee of the shares or a personal representative of the shareholder or their respective proxy holders, may revoke the consent by a writing received by the secretary of the corporation before written consents of the number of shares required to authorize the proposed action have been filed with the secretary.

If the consents of all shareholders entitled to vote have not been solicited in writing, and if the unanimous written consent of all such shareholders shall not have been received, the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. This notice shall be given in the manner specified in Section 5 of this Article II. In the case of approval of (i) contracts or transactions in which a director has a direct or indirect financial interest, pursuant to Section 310 of the Corporations Code of California, (ii) indemnification of agents of the corporation, pursuant to Section 317 of that Code, (iii) a reorganization of the corporation, pursuant to Section 1201 of that Code, or (iv) a distribution in dissolution other than in accordance with the rights of outstanding preferred shares, pursuant to Section 2007 of that Code, the notice shall be given at least ten (10) days before the consummation of any action authorized by that approval.

Section 11. RECORD DATE FOR SHAREHOLDER NOTICE, VOTING, AND GIVING CONSENTS. For purposes of determining the shareholders entitled to notice of any meeting or to vote or entitled to give consent to corporate action without a meeting, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days before the date of any such meeting nor more than sixty (60) days before any such action without a meeting, and in this event only shareholders of record on the date so fixed are entitled to notice and to vote or to give consents, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the California General Corporation Law.

If the board of directors does not so fix a record date:

(a) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(b) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, (i) when no prior action by the board has been taken, shall be the date on which the first written consent is given, or (ii) when prior action of the board has been taken, shall be at the close of business on the date on which the board adopts the resolution relating to that action, or the sixtieth (60th) day before the date of such action, whichever is later.

Section 12. PROXIES. Every person entitled to vote for directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the secretary of the corporation. A proxy shall be deemed signed if the shareholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission, or otherwise) by the shareholder or the shareholder's attorney-in-fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless (i) revoked by the person executing it, before the vote pursuant to that proxy, by a writing delivered to the corporation stating that the proxy is revoked, or by a subsequent proxy executed by, or attendance at the meeting and voting in person by, the person executing the proxy; or (ii) written notice of the death or incapacity of the maker of that proxy is received by the corporation before the vote pursuant to that proxy is counted; provided, however, that no proxy shall be valid after the expiration of eleven (11) months from the date of the proxy, unless otherwise provided in the proxy. The revocability of a proxy that states on its face that is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of the Corporations Code of California.

Section 13. INSPECTORS OF ELECTION. Before any meeting of shareholders, the board of directors may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its adjournment. If no inspectors of election are so appointed, the chairman of the meeting may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (l) or three (3). If inspectors are appointed at a meeting on the request of one or more shareholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (l) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the chairman of the meeting may, and upon the request of any shareholder or a shareholder's proxy shall, appoint a person to fill that vacancy.

These inspectors shall:

(a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;

(b) Receive votes, ballots, or consents;

(c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;

(d) Count and tabulate all votes or consents;

(e) Determine when the polls shall close;

(f) Determine the result; and

(g) Do any other acts that may be proper to conduct the election or vote with fairness to all shareholders.

Section 14. NOMINATIONS FOR DIRECTOR; SHAREHOLDER PROPOSALS.

(a) Nomination of Directors. Nominations for election of members of the board of directors may be made by the board of directors or by any shareholder of any outstanding class of voting stock of the corporation entitled to vote for the election of directors in accordance with this Section 14.

(b) Other Proposals. Any shareholder of the corporation entitled to vote at any annual or special meeting of shareholders may make nominations for the election of directors and other proposals for inclusion on the agenda of any such meeting provided such shareholder complies with the timely notice provisions set forth in this Section 14 (as well as any additional requirements under any applicable law or regulation).

(c) Timely Notice by Shareholders. A shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation (i) in the case of any special meeting and of the first annual meeting held after the effective date of these Amended and Restated Bylaws, not less than thirty (30) days nor more than sixty (60) days prior to the meeting date specified in the notice of such meeting; provided, however, that if less than forty (40) days' notice or prior public disclosure of the date of such meeting is given or made to shareholders, notice by shareholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of such meeting was mailed or such public disclosure was made, and (ii) in the case of any subsequent annual meeting, not less than ninety (90) days prior to the day and month on which, in the immediately preceding year, the annual meeting for such year had been held. Such shareholder's notice shall set forth (A) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, the class and number of shares of the corporation which are beneficially owned by such person that are required to be disclosed in solicitations of the proxies with respect to nominees for election as directors, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected); (B) as to each action item required to be included on the agenda, a description, in sufficient detail, of the purpose and effect of the proposal to the extent necessary to properly inform all shareholders entitled to vote thereon prior to any such vote; and (C) as to the shareholder giving the notice, (i) the name and address, as they appear on the corporation's books, of such shareholder and (ii) the class and number of shares of the corporation which are beneficially owned by such shareholder.

(d) Failure to Provide Timely Notice, Etc. No person nominated by a shareholder shall be elected as a director of the corporation unless nominated in accordance with the procedures set forth in this Section 14. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination or other proposal by a shareholder was not properly brought before the meeting, and, if the Chairman shall so determine, he shall so declare to the meeting and such nomination or other proposal shall be disregarded.

ARTICLE III

DIRECTORS

Section 1. POWERS. Subject to the provisions of the California General Corporation Law and any limitations in the articles of incorporation and these bylaws relating to action

required to be approved by the shareholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

Without prejudice to these general powers, and subject to the same limitations, the directors shall have the power to:

(a) Select and remove all officers, agents, and employees of the corporation; prescribe any powers and duties for them that are consistent with law, with the articles of incorporation, and with these bylaws; fix their compensation; and require from them security for faithful service.

(b) Change the principal executive office or the principal business office in the State of California from one location to another; cause the corporation to be qualified to do business in any other state, territory, dependency, or country and conduct business within or without the State of California; and designate any place within or without the State of California for the holding of any shareholders' meeting, or meetings, including annual meetings.

(c) Adopt, make and use a corporation seal; prescribe the forms of certificates of stock; and alter the form of the seal and certificates.

(d) Authorize the issuance of shares of stock of the corporation on any lawful terms, in consideration of money paid, labor done, services actually rendered, debts or securities canceled, or tangible or intangible property actually received.

(e) Borrow money and incur indebtedness on behalf of the corporation, and cause to be executed and delivered for the corporation's purposes, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, and other evidences of debt and securities.

Section 2. NUMBER OF DIRECTORS.

(a) The authorized number of directors shall be not less than five nor more than nine. The exact number of directors shall be fixed from time to time by resolution of the Board of Directors, except that in the absence of any such designation, such number shall be five.

(b) The maximum or minimum authorized number of directors may only be changed by an amendment of this Section approved by the vote or written consent of a majority of the outstanding shares entitled to vote; provided, however, that an amendment reducing the minimum number to a number less than five shall not be adopted if the votes cast against its adoption at a meeting (or the shares not consenting in the case of action by written consent) exceed 16-2/3% of such outstanding shares; and

provided further, that in no case shall the stated maximum authorized number of directors exceed two times the stated minimum number of authorized directors minus one.

Section 3. ELECTION AND TERM OF OFFICE OF DIRECTORS. Directors shall be elected at each annual meeting of the shareholders to hold office until the next annual meeting. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Section 4. VACANCIES. Vacancies in the board of directors may be filled by a majority of the remaining directors, though less than a quorum, or by a sole remaining director, except that a vacancy created by the removal of a director by the vote or written consent of the shareholders or by court order may be filled only by the vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of holders of a majority of the outstanding shares entitled to vote. Each director so elected shall hold office until the next annual meeting of the shareholders and until a successor has been elected and qualified.

A vacancy or vacancies in the board of directors shall be deemed to exist in the event of the death, resignation, or removal of any director, or if the board of directors by resolution declares vacant the office of a director who has been declared of unsound mind by an order of court or convicted of a felony, or if the authorized number of directors is increased, or if the shareholders fail, at any meeting of shareholders at which any director or directors are elected, to elect the number of directors to be voted for at that meeting.

The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent shall require the consent of a majority of the outstanding shares entitled to vote.

Any director may resign effective on giving written notice to the chairman of the board, the president, the secretary, or the board of directors, unless the notice specifies a later time for that resignation to become effective. If the resignation of a director is effective at a future time, the board of directors may elect a successor to take office when the resignation becomes effective.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

Section 5. PLACE OF MEETING AND MEETINGS BY TELEPHONE. Regular meetings of the board of directors may be held at any place within or outside the State of California that has been designated from time to time by resolution of the board. In the absence of

such a designation, regular meetings shall be held at the principal executive office of the corporation. Special meetings of the board shall be held at any place within or outside the State of California that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all directors participating in the meeting can hear one another, and all such directors shall be deemed to be present in person at the meeting.

Section 6. ANNUAL MEETING. Immediately following each annual meeting of shareholders, the board of directors shall hold a regular meeting for the purpose of organization, any desired election of officers, and the transaction of other business. Notice of this meeting shall not be required.

Section 7. OTHER REGULAR MEETINGS. Other regular meetings of the board of directors shall be held without call at such time as shall from time to time be fixed by the board of directors. Such regular meetings may be held without notice.

Section 8. SPECIAL MEETINGS. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board or the president or any vice president or the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. In case the notice is mailed, it shall be deposited in the United States mail at least four (4) days before the time of the holding of the meeting. In case the notice is delivered personally, or by telephone or telegram, it shall be delivered personally or by telephone or to the telegraph company at least forty-eight (48) hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the corporation.

Section 9. QUORUM. A majority of the authorized number of directors shall constitute a quorum for the transaction of business, except to adjourn as provided in Section 11 of this Article III. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the board of directors, subject to the provisions of Section 310 of the Corporations Code of California (as to approval of contracts or transactions in which a director has a direct or indirect material financial interest), Section 311 of that Code (as to appointment of committees), and

Section 317(e) of that Code (as to indemnification of directors). A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

Section 10. WAIVER OF NOTICE. The transaction of any meeting of the board of directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes. The waiver of notice or consent need not specify the purpose of the meeting. All such waivers, consents, and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any director who attends the meeting without protesting, before or at its commencement, the lack of notice to that director.

Section 11. ADJOURNMENT. A majority of the directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 12. NOTICE OF ADJOURNMENT. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of the time and place shall be given before the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the directors who were not present at the time of the adjournment.

Section 13. ACTION WITHOUT MEETING. Any action required or permitted to be taken by the board of directors may be taken without a meeting, if all members of the board shall individually or collectively consent in writing to that action. Such action by written consent shall have the same force and effect as a unanimous vote of the board of directors. Such written consent or consents shall be filed with the minutes of the proceedings of the board.

Section 14. FEES AND COMPENSATION OF DIRECTORS. Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement of expenses, as may be fixed or determined by resolution of the board of directors. This Section 14 shall not be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation for those services.

ARTICLE IV

COMMITTEES

Section 1. COMMITTEES OF DIRECTORS. The board of directors may, by resolution adopted by a majority of the authorized number of directors, designate one or more committees, each consisting of two or more directors, to serve at the pleasure of the board. The board may designate one or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. Any committee, to the extent provided in the resolution of the board, shall have all the authority of the board, except with respect to:

(a) the approval of any action which, under the General Corporation Law of California, also requires shareholder's approval or approval of the outstanding shares;

(b) the filling of vacancies on the board of directors or in any committee;

(c) the fixing of compensation of the directors for serving on the board or on any committee;

(d) the amendment or repeal of bylaws or the adoption of new bylaws;

(e) the amendment or repeal of any resolution of the board of directors which by its express terms is not so amendable or repealable;

(f) a distribution to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the board of directors; or

(g) the appointment of any other committees of the board of directors or the members of these committees.

Section 2. MEETINGS AND ACTION OF COMMITTEES. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Sections 5 (place of meetings), 7 (regular meetings), 8 (special meetings and notice), 9 (quorum), 10 (waiver of notice), 11 (adjournment), 12 (notice of adjournment), and 13 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members, except that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee; special meetings of the committees may also be called by resolution of the board of directors; and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not

inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS AND EMPLOYEES

Section 1. OFFICERS. The officers of the corporation shall be a president, a secretary, and a chief financial officer. The corporation may also have, at the discretion of the board of directors, a chairman of the board, one or more vice presidents, one or more assistant secretaries, one or more assistant treasurers, and such other officers as may be appointed in accordance with the provisions of Section 3 of this Article V. Any number of offices may be held by the same person.

Section 2. ELECTION OF OFFICERS. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be chosen by the board of directors, and each shall serve at the pleasure of the board, subject to the rights, if any, of an officer under any contract of employment.

Section 3. SUBORDINATE OFFICERS. The board of directors may appoint, and may empower the president to appoint, such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as a board of directors may from time to time determine.

Section 4. REMOVAL AND RESIGNATION OF OFFICERS. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the board of directors, at any regular or special meeting of the board, or, except in case of an officer chosen by the board of directors, by an officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 5. VACANCIES IN OFFICES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to that office.

Section 6. CHAIRMAN OF THE BOARD. The chairman of the board, if such an officer be elected, shall preside at meetings of

the board of directors and exercise and perform such other powers and duties as from time to time may be assigned to him by the board of directors or prescribed by these bylaws. If there is no president, the chairman of the board shall in addition be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 7 of this Article V.

Section 7. PRESIDENT. Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, if there be such an officer, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. He shall preside at all meetings of the shareholders and, in the absence of the chairman of the board, or if there be none, at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the board of directors or the bylaws.

Section 8. VICE PRESIDENTS. In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, the chairman of the board, the president or the bylaws.

Section 9. SECRETARY. The secretary shall keep or cause to be kept, at the principal executive office or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and shareholders, with the time and place of holding, whether regular or special, and, if special, how authorized, the notice given, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at shareholders' meetings, and the proceedings.

The secretary shall keep, or cause to be kept, at the principal executive office or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all shareholders and their addresses, the number and classes of shares held by each, the number and date of certificates issued for the same, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the board of directors required

by the bylaws or by law to be given, and he shall keep the seal of the corporation if one be adopted, in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by the bylaws.

Section 10. CHIEF FINANCIAL OFFICER. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any directors.

The chief financial officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

ARTICLE VI

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

Section 1. AGENTS, PROCEEDINGS, AND EXPENSES. For the purposes of this Article, "agent" means any person who is or was a director, officer, employee, or other agent of this corporation, or is or was serving at the request of this corporation as a director, officer, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust or other enterprise, or was a director, officer, employee, or agent of a foreign or domestic corporation which was a predecessor corporation of this corporation or of another enterprise at the request of such predecessor corporation; "proceeding" means any threatened, pending or completed action or proceeding, whether civil, criminal, administrative, or investigative; and "expenses" includes, without limitation, attorneys' fees and any expenses of establishing a right to indemnification under Section 4 or Section 5(c) of this Article.

Section 2. ACTIONS OTHER THAN BY THE CORPORATION. Subject to the provisions of Section 5, Section 8 and Section 9 of this Article, this corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any proceeding (other than an action by or in the right of this corporation) by reason of the fact that such person is or was an agent of this

corporation, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with such proceeding if that person acted in good faith and in a manner that person reasonably believed to be in the best interests of this corporation and, in the case of a criminal proceeding, had no reasonable cause to believe the conduct of that person was unlawful. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in the best interests of this corporation or that the person had reasonable cause to believe that the person's conduct was unlawful.

Section 3. ACTIONS BY THE CORPORATION. Subject to the provisions of Section 5, Section 8 and Section 9 of this Article, this corporation shall indemnify any person who was or is a party, or is threatened to be made a party, to any threatened, pending or completed action by or in the right of this corporation to procure a judgment in its favor by reason of the fact that person is or was an agent of this corporation, against expenses actually and reasonably incurred by that person in connection with the defense or settlement of that action if that person acted in good faith, in a manner that person believed to be in the best interests of this corporation and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances. No indemnification shall be made under this Section 3:

(a) In respect of any claim, issue or matter as to which that person shall have been adjudged to be liable to this corporation in the performance of that person's duty to this corporation, unless and only to the extent that the court in which that action was brought shall determine upon application that, in view of all the circumstances of the case, that person is fairly and reasonably entitled to indemnity for the expenses which the court shall determine;

(b) Of amounts paid in settling or otherwise disposing of a threatened or pending action, without court approval; or

(c) Of expenses incurred in defending a threatened or pending action which is settled or otherwise disposed of without court approval.

Section 4. SUCCESSFUL DEFENSE BY AGENT. To the extent that an agent of this corporation has been successful on the merits in defense of any proceeding referred to in Sections 2 or 3 of this Article, or in defense of any claim, issue, or matter therein, the agent shall be indemnified against expenses actually and reasonably incurred by the agent in connection therewith.

Section 5. REQUIRED APPROVAL. Except as provided in Section 4 of this Article, any indemnification under this Article shall be made by this corporation only if authorized in the specific case on a determination that indemnification of the agent is proper in the circumstances because the agent has met the applicable standard of conduct set forth in Sections 2 or 3 of this Article, by:

(a) A majority vote of a quorum consisting of directors who are not parties to the proceeding;

(b) Approval by the affirmative vote of a majority of the shares of this corporation entitled to vote represented at a duly held meeting at which a quorum is present or by the written consent of holders of a majority of the outstanding shares entitled to vote. For this purpose, the shares owned by the person to be indemnified shall not be considered outstanding or entitled to vote thereon; or

(c) The court in which the proceeding is or was pending, on application made by this corporation or the agent or the attorney or other person rendering services in connection with the defense, whether or not such application by the agent, attorney, or other person is opposed by this corporation.

Section 6. ADVANCE OF EXPENSES. Expenses incurred in defending any proceeding may be advanced by this corporation before the final disposition of the proceeding on receipt of an undertaking by or on behalf of the agent to repay the amount if it shall be determined ultimately that the agent is not entitled to be indemnified as authorized in this Article.

Section 7. OTHER CONTRACTUAL RIGHTS. Nothing contained in this Article shall affect any right to indemnification to which persons other than directors and officers of this corporation or any subsidiary hereof may be entitled by contract or otherwise.

Section 8. LIMITATIONS. No indemnification or advance shall be made under this Article, except as provided in Section 4 or Section 5(c), in any circumstance where it appears:

(a) That it would be inconsistent with a provision of the articles, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

(b) That it would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 9. INSURANCE. Upon and in the event of a determination by the board of directors of this corporation to purchase such insurance, this corporation shall purchase and

maintain insurance on behalf of any agent of the corporation against any liability asserted against or insured by the agent in such capacity or arising out of the agent's status as such whether or not this corporation would have the power to indemnify the agent against that liability under the provisions of this section.

Section 10. FIDUCIARIES OF CORPORATION EMPLOYEE BENEFIT PLAN. This Article does not apply to any proceeding against any trustee, investment manager, or other fiduciary of an employee benefit plan in that person's capacity as such, even though that person may also be an agent of the corporation as defined in Section 1 of this Article. Nothing contained in this Article shall limit any right to indemnification to which such a trustee, investment manager, or other fiduciary may be entitled by contract or otherwise, which shall be enforceable to the extent permitted by applicable law other than this Article.

ARTICLE VII

RECORDS AND REPORTS

Section 1. MAINTENANCE AND INSPECTION OF SHARE REGISTER. The corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the board of directors, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each shareholder.

A shareholder or shareholders of the corporation holding at least five percent (5%) in the aggregate of the outstanding voting shares of the corporation may (i) inspect and copy the records of shareholders' names and addresses and share holdings during usual business hours on five (5) days prior written demand on the corporation and (ii) obtain from the transfer agent of the corporation, on written demand and on the tender of such transfer agent's usual charges for such list, a list of the shareholders' names and addresses, who are entitled to vote for the election of directors, and their share holdings, as of the most recent record date for which that list has been compiled or as of a date specified by the shareholder after the date of demand. This list shall be made available to any such shareholder by the transfer agent on or before the later of five (5) days after the demand is received or the date specified in the demand as the date as of which the list is to be compiled. The record of shareholders shall also be open to inspection on the written demand of any shareholder or holder of a voting trust certificate, at any time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. Any inspection and copying under this Section 1 may be made in person or by an agent or attorney of the shareholder or holder of a voting trust certificate making the demand.

Section 2. MAINTENANCE AND INSPECTION OF BYLAWS. The corporation shall keep at its principal executive office, or if its principal executive office is not in the State of California, at its principal business office in this state, the original or a copy of the bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours. If the principal executive office of the corporation is outside the State of California and the corporation has no principal business office in this state, the Secretary shall, upon the written request of any shareholder, furnish to that shareholder a copy of the bylaws as amended to date.

Section 3. MAINTENANCE AND INSPECTION OF OTHER CORPORATE RECORDS. The accounting books and records and minutes of proceedings of the shareholders and the board of directors and any committee or committees of the board of directors shall be kept at such place or places designated by the board of directors, or, in the absence of such designation, at the principal executive office of the corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form. The minutes and accounting books and records shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to the holder's interests as a shareholder or as the holder of a voting trust certificate. The inspection may be made in person or by an agent or attorney, and shall include the right to copy and make extracts. These rights of inspection shall extend to the records of each subsidiary corporation of the corporation.

Section 4. INSPECTION BY DIRECTORS. Every director shall have the absolute right at any reasonable time to inspect all books, records and documents of every kind and the physical properties of the corporation and each of its subsidiary corporations. This inspection by a director may be made in person or by an agent or attorney and the right of inspection includes the right to copy and make extracts of documents.

Section 5. ANNUAL REPORT TO SHAREHOLDERS. The annual report to shareholders referred to in Section 1501 of the California General Corporation Law is expressly dispensed with, but nothing herein shall be interpreted as prohibiting the board of directors from issuing annual or other periodic reports to the shareholders of the corporation as they consider appropriate.

Section 6. FINANCIAL STATEMENTS. A copy of any annual financial statement and any income statement of the corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the corporation as of the end of each period, that has been prepared by the corporation shall be kept on file in the principal executive office of the corporation for twelve (12) months and each such statement shall be exhibited at all reasonable times to any shareholder demanding an examination of any such

statement or a copy shall be mailed to any such shareholder.

If a shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of stock of the corporation makes a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the then current fiscal year ended more than thirty (30) days before the date of the request, and a balance sheet of the corporation as of the end of that period, the chief financial officer shall cause that statement to be prepared, if not already prepared, and shall deliver personally or mail that statement or statements to the person making the request within thirty (30) days after the receipt of the request. If the corporation has not sent to the shareholders its annual report for the last fiscal year, this report shall likewise be delivered or mailed to the shareholder or shareholders within thirty (30) days after the request.

The corporation shall also, on the written request of any shareholder, mail to the shareholder a copy of the last annual, semi-annual, or quarterly income statement which it has prepared, and a balance sheet as of the end of that period.

The quarterly income statements and balance sheets referred to in this section shall be accompanied by the report, if any, of any independent accountants engaged by the corporation or the certificate of an authorized officer of the corporation that the financial statements were prepared without audit from the books and records of the corporation.

Section 7. ANNUAL STATEMENT OF GENERAL INFORMATION. The corporation shall, within the statutorily required time period, file with the Secretary of State of the State of California, on the prescribed form, a statement setting forth the authorized number of directors, the names and complete business or residence addresses of all incumbent directors, the names and complete business or residence addresses of the chief executive officer, secretary, and chief financial officer, the street address of its principal executive office or principal business office in this state, and the general type of business constituting the principal business activity of the corporation, together with a designation of the agent of the corporation for the purpose of service of process, all in compliance with Section 1502 of the Corporations Code of California.

ARTICLE VIII

GENERAL CORPORATE MATTERS

Section 1. RECORD DATE FOR PURPOSES OTHER THAN NOTICE AND VOTING. For purposes of determining the shareholders entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any

other lawful action (other than action by shareholders by written consent without a meeting), the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) days before any such action, and in that case only shareholders of record on the date so fixed are entitled to receive the dividend, distribution, or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date so fixed, except as otherwise provided in the California General Corporation Law.

If the board of directors does not so fix a record date, the record date for determining shareholders for any such purpose shall be at the close of business on the day on which the board adopts the applicable resolution or the sixtieth (60) day before the date of that action, whichever is later.

Section 2. CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS. All checks, drafts, or other orders for payment of money, notes, or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the board of directors.

Section 3. CORPORATION CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and this authority may be general or confined to specific instances; and, unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent, or employee shall have the power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

Section 4. CERTIFICATES FOR SHARES. A certificate or certificates for shares of the capital stock of the corporation shall be issued to each shareholder when any of these shares are fully paid, and the board of directors may authorize the issuance of certificates or shares as partly paid provided that these certificates shall state the amount of the consideration to be paid for them and the amount paid. All certificates shall be signed in the name of the corporation by the chairman of the board or vice chairman of the board or the president or vice president and by the chief financial officer or an assistant treasurer or the secretary or any assistant secretary, certifying the number of shares and the class or series of shares owned by the shareholder. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed on a certificate shall have ceased to be that officer, transfer agent, or registrar before that certificate is issued, it may be issued by the corporation with the same effect as if that person were an officer, transfer agent, or registrar at the date of issuance.

Section 5. LOST CERTIFICATES. Except as provided in this Section 5, no new certificates for shares shall be issued to replace an old certificate unless the latter is surrendered to the corporation and canceled at the same time. The board of directors may, in case any share certificate or certificate for any other security is lost, stolen, or destroyed, authorize the issuance of a replacement certificate on such terms and conditions as the board may require, including provision for indemnification of the corporation secured by a bond or other adequate security sufficient to protect the corporation against any claim that may be made against it, including any expense or liability, on account of the alleged loss, theft, or destruction of the certificate or the issuance of the replacement certificate.

Section 6. REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The chairman of the board, the president, or any vice president, or any other person authorized by resolution of the board of directors or by any of the foregoing designated officers, is authorized to vote on behalf of the corporation any and all shares of any other corporation or corporations, foreign or domestic, standing in the name of the corporation. The authority granted to these officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised by any of these officers in person or by any person authorized to do so by a proxy duly executed by these officers.

Section 7. CONSTRUCTION AND DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the California General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE IX

AMENDMENTS

Section 1. AMENDMENT BY SHAREHOLDERS. New bylaws may be adopted or these bylaws may be amended or repealed by the vote or written consent of holders of a majority of the outstanding shares entitled to vote except as otherwise provided by law or by the articles of incorporation.

Section 2. AMENDMENT BY DIRECTORS. Subject to the rights of the shareholders as provided in Section I of this Article IX, bylaws, other than a bylaw or an amendment of a bylaw changing the authorized number of directors, may be adopted, amended, or repealed by the board of directors.

EXHIBIT 10.1

INCENTIVE STOCK OPTION PLAN
OF
OPTO SENSORS, INC.

1. PURPOSE AND EFFECT.

The purpose of this Incentive Stock Option Plan ("Plan") of Opto Sensors, Inc., a California corporation ("Company"), is to promote the interests of the Company and its stockholders by providing a method whereby certain officers, directors and key employees of the Company may be encouraged to invest in the Company's Common Stock and thereby increase their proprietary interest in its business, encourage them to remain in the employ of the Company and increase their personal interest in its continued success and progress.

2. ADMINISTRATION.

(a) The Company's Board of Directors ("Board") shall have full power and authority, not inconsistent with the provisions of the Plan, to interpret the provisions and supervise the administration of the Plan. All determinations by the Board shall be made by the affirmative vote of a majority of its members, but any determination reduced to writing and signed by a majority of the members shall be fully as effective as if it had been made by a majority vote at a meeting duly called and held.

(b) Each option shall be evidenced by an option agreement which shall contain such terms and conditions as may be approved by the Board and shall be signed by an officer of the Company and the optionee.

(c) Subject to any applicable provisions of the Company's By-Laws, all decisions made by the Board shall be final, conclusive and binding on all persons, including the Company, stockholders, employees, and optionees.

3. SHARES SUBJECT TO THE PLAN.

(a) The shares to be delivered upon exercise of options granted under the Plan shall be made available, at the discretion of the Board, either from the authorized but unissued shares of the Company's Common Stock or from shares of the Company's Common Stock reacquired by the Company.

(b) Subject to adjustments made pursuant to the provisions of paragraph (c) of this Section 3, the aggregate number of shares to be delivered upon exercise of all options which may be granted under this Plan shall not exceed 700,000 shares. If an option granted under the Plan shall expire or terminate for any reason during the term of the Plan, the shares subject to but not delivered under such option shall be available for other options.

(c) In the event of a merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the Company's Common Stock, such adjustment shall be made in the aggregate number of shares subject to the Plan, and the number and option price of shares subject to options granted under the Plan as may be determined to be appropriate by the Board.

4. ELIGIBILITY AND PARTICIPATION.

The persons eligible to receive options under the Plan shall consist of officers, directors and key employees of the Company. Subject to the limitations of the Plan, the Board shall select the persons to be granted options, determine the number and option price of the shares subject to each option, and determine the time when each option shall be granted. More than one option may be granted to the same person.

5. TERM OF PLAN AND OPTION PERIOD.

The last day which options may be granted under the Plan shall expire on December 31, 1998. Subject to the provisions of the Plan with respect to death, retirement and termination of employment, the maximum period during which each option may be exercised shall in no event exceed five years.

6. OPTION PRICE.

The price at which shares may be purchased upon exercise of a particular option shall be determined by the Board and may vary from time to time.

7. EXERCISE OF OPTIONS.

(a) No portion of any option granted under this Plan may be exercised until the optionee has been an officer, director or employee of the Company for at least one year immediately following the date the option is granted and, except in case of death, retirement or termination of employment as hereinafter provided, only during the continuance of the optionee's relationship with the Company as an officer, director or employee. Subject to the foregoing limitations and the terms and conditions of the option agreement, each option shall be exercisable as follows:

(i) After one year of a continuous relationship as an director or employee, no more than fifty percent (50%) of the shares subject to the option.

(ii) After two years of a continuous relationship as an officer, director or employee, no more than seventy-five percent (75%) of the shares subject to the option.

(iii) After three years of a continuous relationship as an officer, director or employee, the remaining balance of the shares subject to the option which have not been exercised.

(b) No shares shall be delivered pursuant to the exercise of any option, in whole or in part, until qualified for delivery under such laws and regulations as may be deemed by the Board to be applicable thereto and until payment in full of the option price therefor is received by the Company. No optionee shall be or deemed to be a holder of any shares subject to such option unless and until the certificate or certificates therefor have been issued.

8. TRANSFERABILITY OF OPTIONS.

An option granted under the Plan may not be transferred and may be exercised only by the optionee during this lifetime and during his relationship as an officer, director or employee of the Company.

9. DEATH, RETIREMENT AND TERMINATION OF EMPLOYMENT.

Any option, the period of which has not theretofore expired, shall terminate at the time of the death of the optionee or of the termination for any reason of such optionee's relationship with the Company as an officer, director or employee (for any reason whatsoever, with or without cause), and no shares may thereafter be delivered pursuant to such option.

If, during the three year period immediately following the date that an optionee first receives a grant of options under the Plan (such date is referred to as the "Optionee's Initial Grant Date"), said optionee dies, retires or has his relationship with the Company terminated by either the Company or him (for any reason whatsoever, with or without cause), the Company shall have the right, but shall not be obligated, to purchase such shares from the optionee or his estate at a purchase price equal to the amount paid by the optionee to the Company for such shares. In order to exercise the aforesaid right, the Company must notify the optionee or his estate within ninety (90) days after death, retirement or termination, whichever is the case. The Company shall have no right under the Plan to purchase shares from an optionee or his estate if the optionee's death, retirement or termination of relationship with the Company occurs more than three (3) years after the Optionee's Initial Grant Date.

INCENTIVE STOCK OPTION AGREEMENT

THIS INCENTIVE STOCK OPTION AGREEMENT ("Agreement") is made and entered into this day of _____, 19__, by and between OPTO SENSORS, INC. ("Company"), a California corporation, and _____ ("Optionee").

WHEREAS, the Company has adopted an Incentive Stock Option Plan ("Plan") for the granting to the Company's officers, directors and key employees of options to purchase shares of Common Stock from the Company in order to encourage stock ownership in the Company by such persons; and

WHEREAS, pursuant to the Plan, the Company's Board of Directors ("Board") has approved the execution of this Agreement to evidence the grant to the Optionee of the right and option to purchase shares of the Common Stock of the Company upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual obligations herein contained, it is agreed as follows:

1. Granting and Exercising of Option.

The Company grants, as of the date set forth above, to the Optionee the right and option to purchase, on the terms and conditions hereinafter set forth, all or any part of an aggregate of _____ shares of the Company's no par value Common Stock ("Shares") at the purchase price of $_____ per Share, exercisable in the amount and at the times set forth in this paragraph below:

(a) No portion of any option granted under this Agreement may be exercised until the Optionee has been an officer, director or employee of the Company for at least one year immediately following the date the option is granted and, except death, retirement or termination of employment as hereinafter provided, only during the continuance of the Optionee's relationship with the Company as an officer, director or employee. Subject to the foregoing limitations and the terms and conditions of the Plan, each option shall be exercisable as follows:

(i) After one year of a continuous relationship as an officer, director or employee, no more than fifty percent (50%) of the Shares subject to the option.

(ii) After two years of a continuous relationship as an officer, director or employee, no more than seventy-five percent (75%) of the Shares subject to the option.

(iii) After three years of a continuous relationship as an officer, director or employee, the remaining balance of the Shares subject to the option which have not been exercised.

(b) No Shares shall be delivered pursuant to the exercise of any option, in whole or in part, until qualified for delivery under such laws and regulations as may be deemed by the Board to be applicable thereto and until payment in full of the option price therefor is received by the Company. No Optionee shall be or deemed to be a holder of any Shares subject to such option unless and until the certificate or certificates therefor have been issued.

Notwithstanding anything provided herein to the contrary, any option granted shall terminate at the close of business on the date preceding the fifth anniversary of the date of grant.

2. Manner of Exercise.

Each exercise of this option shall be by means of a written notice of exercise delivered to the Secretary of the Company, specifying the number of Shares to be purchased and accompanied by payment in cash or by certified or cashier's check payable to the order of the Company of the full purchase price of the Shares to be purchased. In addition, each notice of exercise shall be accompanied by a representation and agreement in writing, signed by the Optionee, that the Shares being acquired are being acquired in good faith for investment, and not for sale or distribution, and shall not be pledged or hypothecated, nor sold or transferred, in the absence of an effective registration statement for the Shares under the Securities Act of 1933, or an opinion of counsel of the Company that registration is not required under said Act, and that the Company may attach to the Shares a legend to that effect.

3. Death, Retirement and Termination of Employment.

Any option, the period of which has not theretofore expired, shall terminate at the time of the death of the Optionee or of the termination for any reason of such Optionee's relationship with the Company as an officer, director or employee (for any reason whatsoever, with or without cause), and no Shares may thereafter be delivered pursuant to such option.

If, during the three year period immediately following the earlier of the execution of this Agreement or a similar Incentive Stock Option Agreement between Company and Optionee, the Optionee acquires any Shares under the option and thereafter dies, retires or has his relationship with the Company terminated by either the Company or him (for any reason whatsoever, with or without cause) during said three year period, the Company shall have the right, but shall not be obligated to, purchase such Shares from the Optionee or his estate at a purchase price equal to the amount paid by the Optionee to the Company for such Shares. In order to exercise the aforesaid right, the Company must notify the Optionee or his estate within ninety (90) days after death, retirement or termination, whichever is the case. The Company shall have no right under this Agreement to purchase shares from the Optionee or his estate if the Optionee's death, retirement or termination of relationship with the Company occurs more than three (3) years

after the date the Optionee first receives a grant of options under the Plan.

4. Transfer of Stock on Exercise.

As soon as practicable after any exercise of this option in accordance with the foregoing provisions, the Company shall, without transfer or issue tax or other incidental expense to the Optionee, deliver to the Optionee at the principal office of the Company or at such other place as may be mutually acceptable to the Company and to the Optionee, a certificate or certificates representing the Shares as to which this option has been exercised.

5. Purchase for Investment.

By accepting this option, the Optionee agrees that any and all Shares purchased upon the exercise of this option shall be acquired for investment and not for resale or for distribution. Upon each exercise of any portion of this option, the person entitled to exercise the same shall furnish evidence satisfactory to the Company (including a written and signed representation) to the effect that the Shares are being acquired in good faith for investment and not for resale or distribution.

6. No Hypothecation or Transfer.

This option and the rights and privileges granted hereby shall not be transferred, assigned, pledged or hypothecated in any way whether by operation of law or otherwise. Upon any attempt so to transfer, assign, pledge, hypothecate or otherwise dispose of this option or any right or privilege granted hereby contrary to the provisions hereof, this option and said rights and privileges shall immediately become null and void.

7. Adjustments of Option Stock; Reorganization; Stock Dividends.

(a) In the event of a merger, reorganization, consolidation, recapitalization, stock dividend or other change in corporate structure affecting the Company's Common Stock, such adjustment shall be made in the number and option price of Shares subject to options granted under this Agreement as may be determined to be appropriate by the Board.

(b) Notwithstanding anything hereinabove to the contrary, upon the occasion of a merger or consolidation of the Company with any other corporation, any options theretofore granted under this Agreement which shall not have been exercised (whether or not then capable of exercise) shall be deemed canceled, unless the surviving corporation shall assume the options under this Agreement, or shall issue substitute options in place thereof.

8. Liquidation.

Upon the liquidation of the Company, any unexercised options theretofore granted under this Agreement shall be deemed canceled, except as otherwise provided in Paragraph 7 above on the occasion of a merger or consolidation.

9. Requirement of Issuance.

The Optionee shall not be entitled to exercise any of the rights or privileges of a stockholder of the Company in respect of any Shares issuable upon any exercise of this option unless and until a certificate or certificates representing such Shares shall have been actually issued and delivered to him.

10. Notice.

Any notice to the Company provided for in this Agreement shall be in writing addressed to it in care of its Secretary at its principal corporate office, and any notice to the Optionee shall be in writing addressed to him at the address then appearing for him on the personnel records of the Company. Either party may designate to the other a different address for the purpose of this paragraph by a written notice given in accordance herewith.

11. Plan Incorporated Herein.

The option hereby granted is subject to, and the Company and the Optionee agree to be bound by, all of the terms and conditions of the Plan, a copy of which is attached hereto and made a party hereof. The Plan shall control in the event there is any conflict between the Plan and this Agreement and on matters not contained in this Agreement.

12. Appointment of Secretary.

The Optionee hereby appoints the Secretary of the Company at the time in office his agent and attorney-in-fact, with power of substitution, in his name and on his behalf to accept delivery and receipt for any certificate or certificates, representing any Shares purchased by the Optionee hereunder, and to hold the same for the account of the Optionee subject to any further written instructions from the Optionee, and delivery to said agent and attorney-in-fact of any such certificates shall for all purposes be deemed delivered to the Optionee.

13. Disputes.

Any dispute or disagreement which shall arise under or as a result of this Agreement, or which shall relate to the interpretation or construction of this Agreement, shall be determined by the Board. The determination of the Board shall be final, binding and conclusive for all purposes.

14. Date of Grant; Applicable Law.

This Option has been granted, executed and delivered the day and year first above written, and the interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California.

OPTO SENSORS, INC.

By:_____
President

OPTIONEE

EXHIBIT 10.2

1997 STOCK OPTION PLAN
OF
OSI SYSTEMS, INC.

1. PURPOSES OF THE PLAN

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

(a) Encourage selected employees, directors and consultants to improve operations and increase profits of the Company;

(b) Encourage selected employees, directors and consultants to accept or continue employment or association with the Company or its Affiliates; and

(c) Increase the interest of selected employees, directors and consultants in the Company's welfare through participation in the growth in value of the common stock of the Company (the "Common Stock").

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

2. ELIGIBLE PERSONS

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

3. STOCK SUBJECT TO THIS PLAN; MAXIMUM NUMBER OF GRANTS

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

4. ADMINISTRATION

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

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

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

5. GRANTING OF OPTIONS; OPTION AGREEMENT

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

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

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

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

6. TERMS AND CONDITIONS OF OPTIONS

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

6.1 Terms and Conditions to Which All Options Are Subject. All Options granted under this Plan shall be subject to the following terms and conditions:

6.1.1 Changes in Capital Structure. Subject to Section 6.1.2, if the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, or recapitalization, combination or reclassification, appropriate adjustments shall be made by the Board in (a) the number and class of shares of stock subject to this Plan and each Option outstanding under this Plan, and (b) the exercise price of each outstanding Option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustments. Each such adjustment shall be subject to approval by the Board in its sole discretion.

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

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

6.1.3 Time of Option Exercise. Subject to Section 5 and Section 6.3.4, Options granted under this Plan shall be exercisable (a) immediately as of the effective date of the stock option agreement granting the Option, or (b) in accordance with a schedule as may be set by the Administrator (in any case, the "Vesting Base Date") and specified in the written stock option agreement relating to such Option. In any case, no Option shall be exercisable until a written stock option agreement in form satisfactory to the Company is executed by the Company and the optionee.

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

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

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

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

(b) Subject to the discretion of the Administrator and the terms of the stock option agreement granting the Option, delivery by the optionee of shares of Common Stock already owned by the optionee for all or part of the Option

price, provided the fair market value (determined as set forth in Section 6.1.10) of such shares of Common Stock is equal on the date of exercise to the Option price, or such portion thereof as the optionee is authorized to pay by delivery of such stock; and

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

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

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

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

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

6.1.10 Determination of Value. For purposes of the Plan, the fair market value of Common Stock or other securities of the Company shall be determined as follows:

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

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

6.1.11 Option Term. Subject to Section 6.3.4, no Option shall be exercisable more than 10 years after the date of grant, or such lesser period of time as is set forth in the stock option agreement (the end of the maximum exercise period stated in the stock option agreement is referred to in this Plan as the "Expiration Date").

6.2 Terms and Conditions to Which Only NQOs Are Subject. Options granted under this Plan which are designated as NQOs shall be subject to the following terms and conditions:

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

6.3 Terms and Conditions to Which Only ISOs Are Subject. Options granted under this Plan which are designated as ISOs shall be subject to the following terms and conditions:

6.3.1 Exercise Price. (a) Except as set forth in Section 6.3.1(b), the exercise price of an ISO shall be determined in accordance with the applicable provisions of the Code and shall in no event be less than the fair market value (determined in accordance with Section 6.1.10) of the stock covered by the Option at the time the Option is granted.

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

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

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

6.3.4 Term. Notwithstanding Section 6.1.11, no ISO granted to any Ten Percent Shareholder shall be exercisable more than five years after the date of grant.

7. MANNER OF EXERCISE

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

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

8. EMPLOYMENT OR CONSULTING RELATIONSHIP

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

9. CONDITIONS UPON ISSUANCE OF SHARES

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

10. NONEXCLUSIVITY OF THE PLAN

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

11. MARKET STANDOFF

Each optionee, if so requested by the Company or any representative of the underwriters in connection with any registration of the offering of any securities of the Company under the Securities Act, shall not sell or otherwise transfer any shares of Common Stock acquired upon exercise of Options during the 180-day period following

the effective date of a registration statement of the Company filed under the Securities Act; provided, however, that such restriction shall apply only to the first registration statement of the Company to become effective under the Securities Act after the date of adoption of this Plan which includes securities to be sold on behalf of the Company to the public in an underwritten public offering under the Securities Act. The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restriction until the end of such 180-day period.

12. AMENDMENTS TO PLAN

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

13. EFFECTIVE DATE OF PLAN

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

OSI SYSTEMS, INC.
INCENTIVE STOCK OPTION AGREEMENT

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

R E C I T A L

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

A G R E E M E N T

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

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

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

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

4. Method and Time of Exercise. The Option may be exercised by written notice delivered to the Company at its principal executive office stating the number of shares with respect to which the Option is being exercised, together with:

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

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

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

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

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

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

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

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

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

8. Optionee Not a Shareholder. Optionee shall have no rights as a shareholder with respect to the Common Stock of the Company covered by this Option until the date of issuance of a stock certificate or stock certificates to him upon exercise of this Option. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued.

9. No Right to Employment. Nothing in the Option granted hereby shall interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate Optionee's employment or consulting at any time, nor confer upon Optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

10. Modification and Termination. The rights of Optionee are subject to modification and termination in certain events as provided in Sections 6.1 and 6.3 of the Plan.

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

12. Plan Governs. This Agreement and the Option evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the express terms

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

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

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

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

OSI SYSTEMS, INC.

By _____
Name:
Title:

OPTIONEE

_____
Name:

Address:

_____
_____
_____

OSI SYSTEMS, INC.
NONQUALIFIED STOCK OPTION AGREEMENT

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

R E C I T A L

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

A G R E E M E N T

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

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

2. Term. This Option shall expire on the day before the _____ anniversary of the date hereof (the "Expiration Date") unless such Option shall have been terminated prior to that date in accordance with the provisions of the Plan or this Agreement. The term "Affiliate" as used herein shall have the meaning as set forth in the Plan.

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

4. Method and Time of Exercise. The Option may be exercised by written notice delivered to the Company at its principal executive office stating the number of shares with respect to which the Option is being exercised, together with:

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

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

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

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

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

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

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

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

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

8. Optionee Not a Shareholder. Optionee shall have no rights as a shareholder with respect to the Common Stock of the Company covered by this Option until the date of issuance of a stock certificate or stock certificates to him upon exercise of this Option. No adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued.

9. No Right to Employment. Nothing in the Option granted hereby shall interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate Optionee's employment or consulting at any time, nor confer upon Optionee any right to continue in the employ of, or consult with, the Company or any of its Affiliates.

10. Modification and Termination. The rights of Optionee are subject to modification and termination in certain events as provided in Sections 6.1 and 6.2 of the Plan.

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

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

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

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

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

OSI SYSTEMS, INC.

By_____
Name:
Title:

OPTIONEE

By_____
Name:

Address:

_____
_____
_____

EXHIBIT 10.3

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between OPTO SENSORS, INC. ("Company"), a California corporation, and DEEPAK CHOPRA ("Employee"), with reference to the following facts:

A. Employee has been serving Company as President in a satisfactory and capable manner pursuant to an oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as President, Chief Executive Officer and Chairman of the Board of Company. Employee shall report to the Board of Directors of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company. Employee shall perform his services under this Agreement in Los Angeles County, California, or such other location as is acceptable to Employee.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of five (5) years. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made

by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of $450,000.00 per annum, which salary shall be reviewed no less frequent than annually by the Company's Board of Directors. The Board of Directors may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. The Employee shall be entitled to receive at least one-third (1/3) of the amount of the total bonuses.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee shall consider in good faith granting a reasonable amount of options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with

Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable

or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of

Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to the Company's Board of Directors describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration. Notwithstanding anything to the contrary contained in this Agreement if, prior to the end of the initial five (5) year term, Employer terminates this Agreement without cause, Employee shall continue to be entitled to receive all of the compensation and other benefits provided for in Paragraph 3 for the remainder of said five (5) year term without any deduction or offset for any compensation earned or received by Employee from any other sources.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or

adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

9.5 Expenses. In the event an action at law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

9.7 Successors and Assigns. This Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their heirs, successors, assigns and personal representatives. As used herein, the successors of Company shall include, but not be limited to, any successor by way of merger, consolidation, sale of all or substantially all of its assets or similar reorganization.

In no event may Employee assign any rights or duties under this Agreement.

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

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

OPTO SENSORS, INC.

By: /s/ Deepak Chopra

Its: Chief Executive Officer

/s/ Deepak Chopra
DEEPAK CHOPRA

EXHIBIT 10.4

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between OPTO SENSORS, INC. ("Company"), a California corporation, and AJAY MEHRA ("Employee"), with reference to the following facts:

A. Employee has been serving Company as Chief Financial Officer in a satisfactory and capable manner pursuant to an oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as Chief Financial Officer of Company. Employee shall report to the Chief Executive Officer of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Chief Executive Officer or the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company. Employee shall perform his services under this Agreement in Los Angeles County, California, or such other location as is acceptable to Employee.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of three (3) years. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of $200,000.00 per annum, which salary shall be reviewed no less frequent than annually by the Company. The Company may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. At the sole discretion of the Board of Directors, Employee may be entitled to participate therein.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee shall consider in good faith granting a reasonable amount of options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company

or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said

information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with

Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to Company describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or

expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration. Notwithstanding anything to the contrary contained in this Agreement if, prior to the end of the initial three (3) year term, Employer terminates this Agreement without cause, Employee shall continue to be entitled to receive all of the compensation and other benefits provided for in Paragraph 3 for the remainder of said three (3) year term without any deduction or offset for any compensation earned or received by Employee from any other sources.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief

against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

9.5 Expenses. In the event an action at law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

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

9.8 Controlling Law; Severability. The validity and construction of this Agreement or of any of its provisions

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

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

OPTO SENSORS, INC.

By: /s/ Deepak Chopra

Its: Chief Executive Officer

/s/ Ajay Mehra

AJAY MEHRA

EXHIBIT 10.5

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between RAPISCAN SECURITY PRODUCTS (U.S.A.), INC. ("Company"), a California corporation, and ANDREAS F. KOTOWSKI ("Employee"), with reference to the following facts:

A. Employee has been serving Company in a satisfactory and capable manner pursuant to a written or oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as President of U.S. Operations and General Manager of Company. Employee shall report to the Chief Executive Officer of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Chief Executive Officer or the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of two (2) years. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made

by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of $140,000.00 per annum, which salary shall be reviewed no less frequent than annually by the Company's Board of Directors. The Board of Directors may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. At the sole discretion of the Board of Directors, Employee may be entitled to participate therein.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee may, in its sole discretion, consider granting options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with

Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable

or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of

Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to Company describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them, including but not limited to that certain Employment Agreement dated March 1, 1993.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

Employee hereby waives any and all rights that Employee may have to request and/or demand a jury trial.

9.5 Expenses. In the event an action in law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

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

9.8 Controlling Law; Severability. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of California.

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

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

EMPLOYER

By: /s/ Deepak Chopra

Its: Chief Executive Officer

EMPLOYEE

/s/ Andreas F. Kotowski

ANDREAS F. KOTOWSKI

EXHIBIT 10.6

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between UDT SENSORS, INC. ("Company"), a California corporation, and MANOOCHER MANSOURI ALIABADI ("Employee"), with reference to the following facts:

A. Employee has been serving Company in a satisfactory and capable manner pursuant to a written or oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as Vice President of Corporate Marketing of Company. Employee shall report to the Chief Executive Officer of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Chief Executive Officer or the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of two (2) years. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made

by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of $120,000.00 per annum, which salary shall be reviewed no less frequent than annually by the Company's Board of Directors. The Board of Directors may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. At the sole discretion of the Board of Directors, Employee may be entitled to participate therein.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee may, in its sole discretion, consider granting options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with

Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable

or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of

Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to Company describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

Employee hereby waives any and all rights that Employee may have to request and/or demand a jury trial.

9.5 Expenses. In the event an action in law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

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

9.8 Controlling Law; Severability. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of California. Should any provision of this Agreement be invalid either due to the duration thereof or the scope of the prohibited activity, such

provision shall be limited by the court to the extent necessary to make it enforceable and, if invalid for any other reason, such invalidity or unenforceability shall not affect or limit the validity and enforceability of the other provisions hereof.

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

EMPLOYER

By: /s/ Deepak Chopra

Its: Chief Executive Officer

EMPLOYEE

/s/ Manoocher Mansouri Aliabadi

MANOOCHER MANSOURI ALIABADI

EXHIBIT 10.7

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between RAPISCAN SECURITY PRODUCTS LTD. ("Company"), a United Kingdom corporation, and ANTHONY S. CRANE ("Employee"), with reference to the following facts:

A. Employee has been serving Company in a satisfactory and capable manner pursuant to a written or oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as Managing Director of Company. Employee shall report to the Chief Executive Officer of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Chief Executive Officer or the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of one (1) year. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made

by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of (Pounds)48,000 (U.K.) per annum, which salary shall be reviewed no less frequent than annually by the Company's Board of Directors. The Board of Directors may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. At the sole discretion of the Board of Directors, Employee may be entitled to participate therein.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee may, in its sole discretion, consider granting options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with

Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable

or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of

Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to Company describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

Employee hereby waives any and all rights that Employee may have to request and/or demand a jury trial.

9.5 Expenses. In the event an action in law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

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

9.8 Controlling Law; Severability. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of California. Should any provision of this Agreement be invalid either due to the duration thereof or the scope of the prohibited activity, such

provision shall be limited by the court to the extent necessary to make it enforceable and, if invalid for any other reason, such invalidity or unenforceability shall not affect or limit the validity and enforceability of the other provisions hereof.

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

EMPLOYER

By: /s/ Deepak Chopra

Its: Chief Executive Officer

EMPLOYEE

/s/ Anthony S. Crane

ANTHONY S. CRANE

EXHIBIT 10.8

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT ("Agreement") is made and entered into this 1st day of April, 1997, by and between OPTO SENSORS, INC. ("Company"), a California corporation, and THOMAS K. HICKMAN ("Employee"), with reference to the following facts:

A. Employee has been serving Company in a satisfactory and capable manner pursuant to a written or oral agreement between Employee and Company.

B. Company has requested that Employee enter into a written employment agreement with Company with respect to matters relating to continued employment with Company, and Employee has agreed to do so, upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the terms and conditions and the mutual agreements and covenants set forth herein, the parties hereto agree as follows:

1. SCOPE OF EMPLOYMENT.

1.1 Capacity. Company hereby continues to employ Employee and Employee hereby accepts continued employment as Managing Director of OSI Malaysia and OSI Singapore. Employee shall report to the Chief Executive Officer of Company and perform the services and duties customarily incident to such office and as otherwise decided upon by the Chief Executive Officer or the Board of Directors.

1.2 Devotion of Services. Employee shall devote his entire productive time, ability and attention exclusively to the business of Company during the term of this Agreement, except for passive investments, charitable and non-profit enterprises and any other business investments which do not interfere with his duties hereunder and which are not competitive with Employer's activities (except as the owner of less than 2% of the issued and outstanding capital stock of a publicly traded corporation). Employee shall perform and discharge well and faithfully those duties assigned him by Company.

2. TERM. Subject to Section 6 herein, the term of this Agreement shall commence as of the date of this Agreement and shall continue and remain in full force and effect for a period of one (1) year. However, in the event that Company thereafter continues to employ Employee, this Agreement shall be deemed automatically renewed upon the same terms and conditions set forth herein except (a) that the parties may mutually agree to revise any of the terms set forth herein, and (b) the employment relationship will be on an "at will" basis, which means that, subject to Section 6.4 herein, either Company or Employee may elect to terminate the employment relationship at any time for any reason whatsoever, with or without cause. Employee acknowledges that no representation has been made

by Company as to any minimum or specified term or length of employment following the term set forth above.

3. COMPENSATION.

3.1 Salary and Bonus. In consideration of the services to be rendered by Employee hereunder, including without limitation any services rendered as an officer or director of Company or any subsidiary or affiliate thereof, during the term of this Agreement Company shall pay to Employee the following:

(a) A salary in the amount of $125,000.00 per annum, which salary shall be reviewed no less frequent than annually by the Company's Board of Directors. The Board of Directors may increase Employee's salary but, in no event, may Employee's salary be reduced during the term of this Agreement.

(b) The Company presently intends to continue its policy of establishing a fiscal year end bonus pool for members of management of Company and/or its subsidiaries, which may be up to ten percent (10%) of the Company's net income before taxes. At the sole discretion of the Board of Directors, Employee may be entitled to participate therein.

(c) All payments to Employee shall be subject to the regular withholding requirements of all appropriate governmental taxing authorities.

(d) If the Company's Board of Directors and/or any committee thereof grants options to senior members of management of the Company and/or its subsidiaries, the Board of Directors and/or such committee may, in its sole discretion, consider granting options to Employee.

3.2 Other Benefits. Employee shall be entitled to participate in any medical and insurance plan which Company is presently providing or may provide to its senior executives. Employee acknowledges that the terms of such plans may change from time to time. Furthermore, Employee shall be entitled to receive the same automobile, life insurance policy and all other benefits which he presently is receiving.

3.3 Expenses. Company will advance to or reimburse Employee for all reasonable travel and entertainment required by Company and other reasonable expenses incurred by Employee in connection with the performance of his services under this Agreement in accordance with Company policy as established from time to time.

4. INVENTIONS.

4.1 Right to Inventions. Employee agrees that any discoveries, inventions or improvements of whatever nature (collectively "Inventions") made or conceived by Employee, solely or jointly with others, during the term of his employment with

Company, that are made with Company's equipment, supplies, facilities, trade secrets or time; or that relate, at the time of conception of or reduction to practice, to the business of Company or Company's actual or demonstrably anticipated research or development; or that result from any work performed by Employee for Company, shall belong to Company. Employee also agrees that Company shall have the right to keep any such Inventions as trade secrets, if Company so chooses. In order to permit Company to claim rights to which it may be entitled, Employee agrees to disclose to Company in confidence all Inventions that Employee makes during the course of his employment and all patent applications filed by Employee within three (3) years after termination of his employment. Employee shall (a) assist Company in obtaining patents on all Inventions deemed patentable by Company in the United States and in all foreign countries and (b) execute all documents and do all things necessary to obtain letters patent to vest Company with full and extensive titles thereto and to protect the same against infringement by others. For the purposes of this Agreement, an Invention is deemed to have been made during the period of Employee's employment if the Invention was conceived or first actually reduced to practice during that period, and Employee agrees that any patent application filed within three (3) years after termination of his employment with the Company shall be presumed to relate to an Invention made during the term of Employee's employment unless Employee can provide evidence to the contrary.

4.2 Assignment of Inventions and Patents. In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 4.1 above, Company hereby notifies Employee of California Labor Code Section 2870, which provides:

> "Any provision in an employment agreement which provides that an employee shall assign or offer to assign any of his or her rights in an invention to his or her employer shall not apply to an invention for which no equipment, supplies, facility, or trade secret information of the employer was used and which was developed entirely on the employee's own time, and (a) which does not relate (1) directly or indirectly to the business of the employer or (2) to the employer's actual or demonstrably anticipated research or development, or (b) which does not result from any work performed by the employee for the employer. Any provision which purports to apply to such an invention is to that extent against the public policy of this state and is to that extent void and unenforceable."

Employee acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Inventions which are otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Employee agrees to promptly disclose in writing to the Company all Inventions, whether Employee personally considers them patentable

or not, which Employee alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under Section 4.1 above. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Invention and, to the extent said Section 2870 does not apply, Employee hereby assigns and agrees to assign all his right, title and interest in and to those Inventions which relate to business of the Company and Employee agrees not to disclose any of these Inventions to others without the prior written express consent of Company. Employee agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Employee as his property. In the event Employee fails to give Company notice of such conflict, Employee agrees that Employee shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

5. CONFIDENTIALITY.

5.1 Restrictions on Use of Trade Secrets and Records. During the term of his employment, Employee will have access to and become acquainted with various trade secrets of Company, consisting of formulas, patterns, devices, secret Inventions, processes, compilations of information, records and specifications (collectively "Trade Secrets"), all of which are owned by Company and used in the operation of Company's business. Additionally, Employee will have access to and may become acquainted with various files, records, customer lists, documents, drawings, specifications, equipment and similar items relating to the business of Company (collectively "Confidential Information"). All such Trade Secrets and Confidential Information, whether they are designed, conceived or prepared by Employee or come into Employee's possession or knowledge in any other way, are and shall remain the exclusive property of Company and shall not be removed from the premises of Company under any circumstances whatsoever without the prior written consent of Company. Employee promises and agrees that he will not use for himself or for others, or divulge or disclose to any other person or entity, directly or indirectly, either during the term of his employment by Company or at any time thereafter, for his own benefit or for the benefit of any other person or entity or for any reason whatsoever, any of the Trade Secrets or Confidential Information described herein, which he may conceive, develop, obtain or learn about during or as a result of his employment by Company unless specifically authorized to do so in writing by Company.

5.2 Non-Interference. Employee recognizes that Company has invested substantial effort in assembling its present employees and in developing its customer base. As a result, and particularly because of Company's many types of confidential business information, Employee understands that any solicitation of a customer or employee of Company, in an effort to get them to change business affiliations, would presumably involve a misuse of

Company's confidences, Trade Secrets and Confidential Information. Employee therefore agrees that, for a period of one (1) year from the later of the date of termination of Employee's employment with Company for any reason whatsoever or the receipt by Employee of any compensation paid to Employee by Company, Employee will not influence, or attempt to influence, existing employees or customers of Company in an attempt to divert, either directly or indirectly, their services or business from Company.

6. TERMINATION OF AGREEMENT.

6.1 Termination by Company. Company may terminate Employee's employment hereunder at any time for cause without payment of severance or similar benefits. For purposes of this Section 6.1, "cause" shall mean the following events: (a) any willful breach of duty by Employee in the course of his employment, (b) the breach of any provision of this Agreement or any misrepresentation by Employee hereunder, (c) misconduct, neglect or negligence in the performance of Employee's duties and obligations, (d) disloyal, dishonest, willful misconduct, illegal, immoral or unethical conduct by Employee, (e) such carelessness or inefficiency in the performance of his duties that Employee is unfit to continue in the service of Company, (f) failure of Employee to comply with the policies or directives of Company and/or failure to take direction from Company's Board of Directors, or (g) such other conduct which is substantially detrimental to the best interests of Company. Any such termination shall become effective upon delivery of written notice to Employee.

6.2 Termination by Employee. Employee may terminate his employment hereunder at any time for cause. For purposes of this Section 6.2, "cause" shall mean the breach of any provision of this Agreement by Company which is not cured within thirty (30) days after Employee delivers written notice to Company describing such breach. If the breach is not so cured within such thirty (30) days after delivery of such notice, the termination of employment shall become effective after the expiration of such cure period.

6.3 Death or Disability. Employee's employment with Company shall cease upon the date of his death. In the event Employee becomes physically or mentally disabled so as to become unable for more than one hundred eighty (180) days in the aggregate in any twelve (12) month period to perform his duties on a full-time basis with reasonable accommodations, Company may, at its sole discretion, terminate this Agreement and Employee's employment.

6.4 Termination Following Automatic Renewal. In the event that this Agreement is automatically renewed pursuant to Paragraph 2 herein, either Company or Employee may terminate Employee's employment hereunder at any time and for any reason whatsoever, with or without cause, upon thirty (30) days prior written notice delivered to the other party.

6.5 Effect of Termination. Upon the termination of Employee's employment hereunder or the expiration or termination of the Agreement, (a) Company shall pay Employee all compensation accrued and outstanding as of the date of such termination or expiration, and (b) notwithstanding anything to the contrary contained herein, the rights and obligations of each party under Paragraphs 4, 5 and 8 herein shall survive such termination or expiration.

7. EMPLOYEE'S REPRESENTATIONS. As an inducement for Company to execute this Agreement, Employee represents and warrants to Company that the negotiation, execution and delivery of this Agreement by Employee together with the performance of his obligations hereunder does not breach or give rise to a breach under any employment, confidentiality, non-disclosure, non-competition or any other agreement, written or oral, to which Employee is a party.

8. EQUITABLE REMEDIES.

8.1 Injunctive Relief. Employee acknowledges and agrees that the covenants set forth in Paragraphs 4 and 5 herein are reasonable and necessary for protection of Company's business interests, that irreparable injury will result to Company if Employee breaches any of the terms of said covenants and that, in the event of Employee's actual or threatened breach of said covenants, Company will have no adequate remedy at law. Employee accordingly agrees that in the event of actual or threatened breach of any of such covenants, Company shall be entitled to immediate injunctive and other equitable relief, without bond and without the necessity of showing actual monetary damages. Nothing contained herein shall be construed as prohibiting Company from pursuing any other remedies available to it for such breach or threatened breach, including the recovering of any damages which it is able to prove. Each of the covenants in Paragraphs 4 and 5 shall be construed as independent of any other covenants or provisions of this Agreement. In the event of any judicial determination that any of the covenants set forth in Paragraphs 4 and 5 herein or any other provisions of the Agreement are not fully enforceable, it is the intention and desire of the parties that the court treat said covenants as having been modified to the extent deemed necessary by the court to render them reasonable and enforceable and that the court enforce them to such extent.

8.2 Specific Enforcement. Employee agrees and acknowledges that he is obligated under this Agreement to render services of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement peculiar value, so that the loss thereof could not be reasonable or adequately compensated in damages in an action at law. Therefore, in addition to other remedies provided by law, Company shall have the right, during the term of this Agreement, to obtain specific performance hereof by Employee and to obtain injunctive relief against the performance of service elsewhere by Employee during the term of this Agreement.

9. GENERAL.

9.1 Entire Agreement. This Agreement contains the entire understanding between the parties hereto and supersedes all other oral and written agreements or understandings between them.

9.2 Amendment. This Agreement may not be modified, amended, altered or supplemented except by written agreement between Employee and Company.

9.3 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

9.4 Jurisdiction. Each party hereby consents to the exclusive jurisdiction of the state and federal courts sitting in Los Angeles County, California, in any action on a claim arising out of, under or in connection with this Agreement or the transactions contemplated by this Agreement. Each party further agrees that personal jurisdiction over him may be effected by service of process by registered or certified mail addressed as provided in Section 9.9 herein, and that when so made shall be as if served upon him personally within the State of California.

Employee hereby waives any and all rights that Employee may have to request and/or demand a jury trial.

9.5 Expenses. In the event an action in law or in equity is required to enforce or interpret the terms and conditions of this Agreement, the prevailing party shall be entitled to reasonable attorney's fees and costs in addition to any other relief to which that party may be entitled.

9.6 Interpretation. The headings herein are inserted only as a matter of convenience and reference, and in no way define, limit or describe the scope of this Agreement or the intent of any provisions thereof. No provision of this document is to be interpreted for or against any party because that party or party's legal representative drafted it.

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

9.8 Controlling Law; Severability. The validity and construction of this Agreement or of any of its provisions shall be determined under the laws of the State of California. Should any provision of this Agreement be invalid either due to the duration thereof or the scope of the prohibited activity, such

provision shall be limited by the court to the extent necessary to make it enforceable and, if invalid for any other reason, such invalidity or unenforceability shall not affect or limit the validity and enforceability of the other provisions hereof.

9.9 Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and if personally received by the party to whom it is sent or delivered, or if sent by registered or certified mail, postage prepaid, to Employee's residence in the case of notice to Employee, or to its principal office if to Company. A notice is deemed received or delivered on the earlier of the day received or three (3) days after being sent by registered or certified mail in the manner described in this Section.

9.10 Waiver of Breach. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach.

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

EMPLOYER

By: /s/ Deepak Chopra

Its: Chief Executive Officer

EMPLOYEE

/s/ Thomas K. Hickman

THOMAS K. HICKMAN

EXHIBIT 10.9

M E M O R A N D U M

TO: ANDY KOTOWSKI

FROM: DEEPAK CHOPRA

DATE: December 18, 1996

SUBJECT: Incentive Compensation

- ---

You shall be entitled to receive incentive compensation for the fiscal years ended June 30, 1997, 1998 and 1999, upon the following terms and conditions.

1. If the consolidated pre-tax earnings of Rapiscan Security Products (U.S.A.), Inc. and Rapiscan Security Products (U.K.) Ltd. ("Rapiscan Earnings") for the fiscal year ended June 30, 1997 exceeds $1,700,000.00, then you shall receive an amount equal to ten percent (10%) of such excess.

2. For the fiscal year ended June 30, 1998, if the Rapiscan Earnings for such fiscal year exceeds $1,700,000.00 and the cumulative Rapiscan Earnings for the June 30, 1997 and 1998 fiscal years exceed $3,400,000.00, then you shall receive an amount equal to ten percent (10%) of the lesser of (i) that portion of the Rapiscan Earnings for the June 30, 1998 fiscal year which exceeds $1,700,000.00 or (ii) that portion of the cumulative Rapiscan Earnings for the June 30, 1997 and 1998 fiscal years which exceeds $3,400,000.00.

3. For the fiscal year ended June 30, 1999, if the Rapiscan Earnings for such fiscal year exceeds $1,700,000.00 and the cumulative Rapiscan Earnings for the June 30, 1997, 1998 and 1999 fiscal years exceed $5,100,000.00, then you shall receive an amount equal to ten percent (10%) of the lesser of (i) that portion of the Rapiscan Earnings for the June 30, 1999 fiscal year which exceeds $1,700,000.00 or (ii) that portion of the cumulative Rapiscan Earnings for the June 30, 1997, 1998 and 1999 fiscal years which exceeds $5,100,000.00.

4. For example purposes only:

	June 30, 1997	June 30, 1998	June 30, 1999
Rapiscan Earnings Per Year	1,700,000.00	1,700,000.00	1,700,000.00
Incentive Compensation	-0-	-0-	-0-
Rapiscan Earnings Per Year	1,200,000.00	2,000,000.00	2,000,000.00
Incentive Compensation	-0-	-0-	10,000.00
Rapiscan Earnings Per Year	3,200,000.00	3,400,000.00	3,600,000.00
Incentive Compensation	150,000.00	150,000.00	150,000.00
Rapiscan Earnings Per Year	5,000,000.00	1,700,000.00	2,000,000.00
Incentive Compensation	150,000.00	-0-	30,000.00

5. In no event shall this incentive compensation exceed $150,000.00 for any fiscal year.

6. Your incentive compensation shall be paid within 120 days after the end of the fiscal year and shall be determined by OSI's independent certified public accountants in accordance with generally accepted accounting principles consistently applied to practices for prior periods.

7. You must be employed by Rapiscan for the entire fiscal year in order to receive incentive compensation for such year.

8. The foregoing incentive compensation shall be in addition to that which you may be entitled under the general bonus plan for management.

9. You agree to keep the terms of this agreement strictly confidential.

/s/ Deepak Chopra
_____
Deepak Chopra, Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ Andy Kotowski
_____
Andy Kotowski

EXHIBIT 10.12

AMENDMENT NUMBER TWO TO LEASE

This Amendment Number Two to Lease, dated October 24, 1995, (the "Amendment"), for reference purposes only, is hereby made a part of that certain lease dated January 1, 1989, by an between KB Management Company, as "Lessor", and UDT Sensors, Inc., successor in interest United Detector Technology, a division of ILC Technology, as "Lessee", for that certain Premises being two single story and free standing buildings of office and warehouse space and surrounding parking areas commonly known as 12515 Chadron Avenue (north building) and 12525 Chadron Avenue (south building), Hawthorne, California containing approximately 21,000 and 37,500 square feet respectively, (the "Lease").

1. Effective Date. Notwithstanding the date first set forth above, the effective date of this Amendment will be July 1, 1995, (the "Effective Date").

2. Parties. Lessor's name is hereby amended to A & R Management and Development Co., a California general partnership, and Stanley Black and Joyce Black, (the "Lessor"). Lessee's name is here amended to UDT Sensors, Inc., a California corporation.

3. Insurance. In accordance with First Amendment to Lease Paragraph 1, Lessee is the Insuring Party for the Premises. Lessee shall maintain property insurance and liability insurance in accordance with Paragraph 8, and name Lessor on Lessee's insurance policies as follows:

3.01 Property Insurance. In accordance with Lease Paragraph 8.3, Lessee shall maintain property insurance which will equal to the full replacement cost of the Premises, as the same shall exist from time to time. Lessor and Lessee hereby agree that the amount of replacement cost insurance that Lessee is to maintain for 12515 Chadron is currently $1,155,000.00 and for 12525 Chadron is currently $2,062,500.00 exclusive of Lessee's Personal Property, Lessee's Tenant Improvements, Lessee Owned Alterations and Utility Installations. Further, in accordance with Lease Paragraph 8.3(b) Lessee shall maintain Rental Value insurance.

Lessee will name A & R Management and Development Co., a California general partnership, Stanley Black and Joyce Black as additional insureds as their interest may appear, and as loss payees as their interest may appear.

3.02 Liability Insurance. Lessee will name additional insureds as follows:

A & R Management and Development Co., a California general partnership, Stanley Black and Joyce Black as "Owners", and Charles Dunn Company, as "Managing Agent".

4. Term. In accordance with the Lease and Addendum Number One, the Term of the Lease is January 1, 1989 through October 31, 1995. Lessor and Lessee hereby agree to extend the Term by ten (I years commencing July 1, 1995 through June 30, 2005, (the "Extension Period"). Lessee's option to extend the Lease in Addendum Number One for a five (5) year period commencing November 1, 1995 through October 31, 2000 is hereby canceled and of no further force and effect.

5. Base Rent. Lessee shall pay monthly Base Rent for the Premises in advance on the first day of each month of the Extension Period as follows:

Year 1: (July 1, 1995 - June 30, 1996) $26,000.00 triple net (NNN) per month. Each year thereafter, fixed 3.0% annual increases over the prior year's Base Rent.

6. Option to Extend Lease Term (One (1) five (5) Year Option).

6.01 Option to Extend. Providing Lessee is not in default under the terms and conditions of the Lease, and/or any addendum or any amendments attached thereto, Lessee is hereby granted one (1) five (5) year option (the "Option Period") to further extend the Term. Lessee shall provide written notice to Lessor not later than six (6) months prior to the expiration of the Extension Period of Lessee's intention to exercise said option, time being of essence. Said Option Period shall be under the same terms, conditions, and provisions as set forth in the Lease and this Amendment, except that the Base Rent for the Option Period shall be adjusted as outlined herein below.

6.02 Rent for Option Period. Upon Lessor's receipt of Lessee's notice of intention to exercise said option, Lessor and Lessee shall meet to mutually agree upon the fair market value rental rate for the Option Period by no later than three (3) months prior to the expiration of the Extension Period. In the event Lessor and Lessee cannot agree on the rental rate, the Option Period shall be of no force and effect.

7. Tenant Improvements. Lessor and Lessee agree that Lessor and Lessee and/or their representatives have inspected the Premises together and in consideration of Lessee executing this Amendment, Lessor shall perform certain tenant improvements at Lessor's sole cost and expense, (the "Tenant Improvements") on a one time basis only as follows:

Building #1 12525 Chadron (south building)
Building #2 12515 Chadron (north building)

1. Remove one (1) underground storage tank from parking lot.
2. Repair existing roofs on buildings #1 and 2.
3. Perform general repairs at emergency exit located at the northeast comers of buildings #1 and 2.
a) Cover open sump at the northeast corners of buildings #1 and 2 and perform related minor repairs as required.
4. Pave easement at rear of building #1.
5. Renovate 2 restrooms in building #1 and 2 restrooms in building #2 as follows:
a) Remove existing toilets and replace with new toilets (Kohler model no. K3520 elongated bowls or equivalent).
b.) Replace existing sinks, tile, walls, stalls and light fixtures.
6. Encapsulate asbestos tile in receiving area.

7. Build new lunch room in building #2 with 2 restrooms, including one shower in each restroom. Size and scope to be in accordance with City of Hawthorne requirements. See Exhibit "A"- Lunch Room Plan attached hereto.

8. Touch up exterior paint on both buildings.
9. Touch up paint on interior doors and halls in both buildings.
10. Repair and stripe parking lots for both buildings including parking areas in front of both buildings.
11. Repair chain link fence and gate at the parking lot commonly known as 12605 Chadron.

12. Lessor shall give Lessee an allowance of UP TO $13,000.00 for purposes of installing drainage and/or sensing systems in the "wafer room" located in building #1. Said allowance shall be given

to Lessee within 30 days of Lessee completing its work and presenting paid invoices and lien releases of up to $13,000.00 to Lessor.

13. Install a fire sprinkler system in building #2. Said sprinkler system shall be a "Group 3" ordinary hazard system suitable for office or warehouse use. Pendent heads in office area shall be semi-recessed throughout.

14. Raise walkway between buildings allowing for drainage.

15. Repair west side of street (Chadron Avenue). Fill pot holes and resurface only.

16. Provide covered walkway between the buildings if allowed by governing agency.

17. Remodel main lobby. Maximum allowance $5,000.00.

8. Cabinet Work. In addition to the Tenant Improvements above, Lessor shall also furnish and install cabinets and rough plumbing and electrical for same in the new lunch room (the "Cabinet Work"); however, Lessee will reimburse Lessor for the cost of the Cabinet Work in tile form of a tenant improvement loan payable to Lessor in equal monthly payments commencing effective July 1, 1995 along with the Base Rent under the same terms and conditions as paying Base Rent under the Lease. The cost of the Cabinet Work will be amortized over ten (10) years at nine percent (9%) interest.

For example

Cost of Cabinet Work	$15,000.00
Number of months in extension period	120
Interest rate	2Y2
Monthly payment	$ 188.60

Lessor and Lessee hereby agree that the Cabinet Work is limited to furnishing and installing the cabinets including the rough plumbing and electrical for same, and does not include any appliances. Lessee shall furnish, and pay for the cost of any and all appliances directly to the supplier at Lessee's sole cost and expense, and Lessor will install such appliances.

9. Construction.

Lessor hereby warrants that Lessor will diligently pursue obtaining building permits once this Amendment is fully executed. Further, Lessor warrants that Lessor will commence construction of the work to be performed by Lessor hereinabove within ten (10) days of Lessor obtaining all applicable building permits and will diligently pursue construction (as prescribed by such building permits) to substantial completion within four (4) months of obtaining the permits. Lessor will not be required to perform any work that does not comply with the governing agencies requirements.

Lessor and Lessee hereby agree that construction shall be performed to the mutual reasonable satisfaction of both Lessor and Lessee. If the building permits for the lunch room are not obtained within six (6) months of the full execution date of this Amendment, then at the end of said six (6) month period the lease terms will be renegotiated.

Lessor hereby recognizes that there are certain work areas of the Premises that contain clean rooms or other specialized rooms in which there cannot be any construction performed during Lessee's normal business day hours (i.e. Monday through Friday 7:00 a.m. - 4:00 p.m.). Therefore, in terms of installing the fire sprinkler system and for availability of the parking lot for performing work, Lessor will endeavor to perform such work during a mutually convenient time during Lessee's normal business day hours or at such other mutually agreed times after Lessee's normal business day hours so as to cause the least amount of disruption as possible in those two (2) areas. However, as to performing work in the bathrooms and general

office areas Lessor will make an effort to keep dust and noise at a minimum to avoid disturbance during Lessee's normal business hours. Lessee will not be responsible to pay the cost of any overtime or premium time.

Lessor will give Lessee at least five (5) days prior notice of the commencement of the scope of work to be accomplished. Such prior notice will be verbally agreed to by Lessor's and Lessee's respective construction representatives, and Lessor shall follow up with a written confirmation to Lessee by either fax or mail. Lessor and Lessee hereby agree that their respective construction representative's are Fred Posner, and Tim Scroggins, or their assignees.

Force Majeure
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Notwithstanding any provision contained in this Lease to the contrary relative to all work to be completed by Lessor under this Lease, if Lessor shall be delayed at any time in the process of obtaining building permits, or in the construction of the work to be performed by Lessor by Acts of God, extra work or by changes ordered in the construction by Lessee, by labor trouble, or shortage, arbitration proceedings, acts of public utilities, public bodies or inspectors, unusual delay in transportation, unavailability of materials (whether simply unavailable or unavailable at normal prices), unavoidable casualties, rain or stormy weather conditions, act of Lessee or Lessee's agents, or by any other cause beyond the reasonable control of Lessor, then, the four (4) month time period set forth above that Lessor has to substantially complete construction will be extended by the period of such delay.

10. Purchase Option.

10.01 Purchase Option. Providing Lessee is not in default under the terms and conditions of the Lease, and/or any addendum or any amendments attached thereto, Lessee and/or Deepak Chopra, Ajay Mehra, or another nominee of Lessee's choice, shall have the right to purchase the Premises upon six (6) months prior written notice to Lessor. The purchase price will be a base purchase price of two million eight-hundred thousand dollars ($2,800,000.00) plus the unamortized balances of the cost of the Tenant Improvements and the Cabinet Work. The base purchase price of $2,800,000.00 will be fixed for the first four (4) years of the Extension Period, each year thereafter the base purchase price will be increased by the Consumer Price Index (CPI) over the prior year. For purposes of calculating the unamortized balance of tile cost of the Tenant Improvements, the cost will be amortized over ten (10) years at no interest on a straight-line basis. Lessor and Lessee hereby agree that the cost of the Tenant Improvement work is $200,000.00, and the cost of the Cabinet Work is $15,000.00. The following example illustrates how the purchase price would be calculated if Lessee were to purchase the Premises at the commencement of the fourth (4) year of the Extension Period.

An example:

Cost of Tenant Improvements		$ 200,000.00
Number of months in Extension Period	/1 20=$1,666.67 per mo.	
Number of months remaining		x 84
Unamortized balance of cost of Tenant Improvements =		140,000.00
Cost of Cabinet Work		$ 15,000.00
Monthly payment		188.60
Number of months remaining		x 84
Unamortized balance of cost of Cabinet Work (i.e. the present value at end of 36th month)		$ 11,868.24

Base purchase price	$2,800,000.00
Cost of Tenant Improvements balance	140,000.00
Cost of Cabinet Work balance	11,868,14
Total Purchase Price	$2,951,868.24

10.02 Right of First Refusal to Purchased. Providing Lessee is not in default under the terms and conditions of the Lease, and/or any addendum or any amendments attached thereto, Lessee and/or Deepak Chopra, Ajay Mehra or another nominee of Lessee's choice, shall have a right of first refusal to purchase the Premises by advising Lessor in writing within ten (10) days after Lessee receives Lessor's notice of Lessor's acceptance of an offer to purchase, which notice shall include a copy of the offer to purchase accepted by Lessor. Throughout the Extension Period, Lessor shall forward to Lessee, copies of each and every offer to purchase accepted by Lessor as required herein. Lessor's and Lessee's notices to the other shall be sent by certified mail return receipt requested. Lessee's purchase shall be on the same terms and conditions as the offer to purchase Lessor receives, but not to exceed the amount as specified in paragraph 10.01 hereinabove. Within five (5) days of Lessor receiving Lessee's notice, Lessor and Lessee shall open an escrow with an escrow company of Lessor's choice. Upon opening of escrow Lessee shall deposit $100,000.00 in cash with the escrow company. If Lessee fails to deposit said sum upon opening of escrow, Lessee's right of first refusal shall be of no further force and effect. This amount shall also serve as liquidating damages if Lessee (buyer) does not complete said transaction.

10.03 Consumer Price Index. As used herein the Term CPI shall mean the Consumer Price Index of the US Department of Labor All Urban Consumers, Los Angeles-Anaheim-Long Beach (1982-84=100) All Items. In the event the CPI shall be discontinued, then Lessor and Lessee shall agree on using the index most nearly the same as the CPI, or any such other index mutually agreed upon by Lessor and Lessee.

11. Damage or Destruction (See Lease Paragraph 9).

11.01 Total Destructions. Notwithstanding any other provision of the Lease, in the event the "wafer room" located in building #1 is more than fifty percent (50%) destroyed and it is impossible to substantially repair or replace the related equipment, then upon providing reasonable evidence to Lessor that repair or replacement is not possible, Lessee may cancel this Lease as it pertains to building #1 only. Lessee shall provide Lessor a prior written notice of Lessee's intention to cancel the Lease. As a condition to Lessee's right to cancel the Lease, Lessee shall pay to Lessor at the same time as providing Lessee's notice, six (6) months of the then applicable scheduled rent as of the effective date of the cancellation of the Lease plus the unamortized portion of the cost of the Tenant Improvements as of the effective date of the cancellation of the Lease.

11. Damage or Destruction (Continued): The applicable scheduled rent for both buildings as of the Effective Date of the Extension Period is allocated as follows:

Building #1 (37,500 sq. ft.) allocation	$15,000.00
Building #2 (21,000 sq. ft.) allocation	$11,000.00
Total Base Rent for both building at commencement of Extension Period	$26,000.00

In addition, Lessee shall turn building #1 back to Lessor in a broom-clean condition with all of Lessee's equipment and personal property removed, and any and all damage repaired to building #1 related to the removal of Lessee's equipment and personal property.

11.02 Partial Damage. In the event of Partial Damage which is an Insured Loss, Lessor warrants that Lessor will diligently pursue obtaining building permits within ten (10) days of the loss. Further, Lessor warrants that Lessor will commence construction of the repair work within ten (10) days of Lessor obtaining all applicable building permits and will diligently pursue the required repairs (as prescribed by such building permits) to completion. If Lessor fails to perform as required in this paragraph hereinabove, Lessee shall have the right to terminate the Lease if, and only if, Lessor continues to fail to perform within ten (10) days after Lessor receives a written notice from Lessee advising Lessor's failure to perform.

12. Use. Notwithstanding anything to the contrary set forth in the Lease, Lessee hereby agrees to use the Premises in accordance with the following:

a) "Hazardous Materials" shall mean any substance, material, waste, gas or particulate matter which is regulated by any local, state or federal authority including, but not limited to, petroleum; radioactive, nuclear or toxic waste or materials; asbestos; polychiorinated biplienyl's (PCB's); urea formaldehyde foam insulation; freon or freon-containing equipment, which is or becomes regulated; any material or substance designated or defined as a "Hazardous Substance", "Toxic Substance" or Hazardous Waste" in Section 25117 of the Health and Safety Code of the State of California or under any successor section or other provision of California law; Section 311 of the Clean Water Act (33 U.S.C., Section 1251 et seq.); the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Resource Conservation and Recovery Act of 1976; the Hazardous Materials Transportation Act; and any other laws and ordinances governing similar matter now or hereinafter enacted or any regulations adopted or publications promulgated pursuant thereto (hereinafter collectively referred to as the "Regulations"). "Hazardous Materials Activities" shall mean the use, generation, storage, disposal and/or transportation of Hazardous Materials by Lessee or Lessee's employees, agents, contractors, licensees and/or invitees.

b) Lessor and Lessee hereby acknowledge and agree that Lessee shall be allowed to conduct or cause to be conducted any Hazardous Materials Activities related to Lessee's business on, under or about the Premises, the property, and/or the building without receiving Lessor's prior written consent. Lessee shall conduct all Hazardous Materials Activities in strict compliance (at Lessee's sole cost and expense) with all applicable Regulations using all necessary and appropriate precautions. Lessee shall, within five (5) days after Lessee's execution of this Amendment, and at other times within five (5) days after receipt of Lessor's written request, provide Lessor with copies of ail documents and information, including, but not limited to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with all applicable Regulations.

c) Lessee shall indemnify, protect, defend (with counsel reasonably acceptable to Lessor) and hold harmless Lessor from and against any and all claims, damages, costs and liabilities (including reasonable attorney's fees and costs, and court costs) arising out of any Hazardous Material Activities. Lessor, and Lessor's representatives and employees, may enter the Premises, at an), time during the Extension Period (including any renewal terms, as and if applicable) upon reasonable prior written notice to Lessee, in order to inspect Lessee's compliance herewith. The indemnification of Lessor by Lessee set forth in this Paragraph 12 shall survive the expiration or any earlier termination of the Lease.

13. Broker's Fees. Lessor and Lessee acknowledge and agree that neither party is represented by a broker and shall hold harmless and indemnify the other party from any commission fees and any and all related costs and fees that may arise out of this Amendment or any extension of the term thereof.

14. Notices. Any notice or notices required of or given by either Lessor or Lessee shall be in writing and shall be deemed received when sent in accordance with Lease paragraph 23 addressed to Lessor and addressed to Lessee as follows:

To Lessor:	with a copy to:
A & R Management, et al.	A & R Management, et al.
c/o Charles Dunn Company	9350 Wilshire Blvd., Suite 302
800 West Sixth Street, 6th Floor	Beverly Hills, CA 90212
Los Angeles, CA 90017	Attn: Michael Kaplan

To Lessee:
UDT Sensors, Inc.
12525 Chadron Avenue
Hawthorne, CA 90250
Attn. Ajay Mehra

15. Limitation of Lessor's Liability. Notwithstanding anything to the contrary set forth in the Lease, the obligations of Lessor, as individuals, and Lessor's partners (either general or limited) under the Lease do not constitute personal obligations. Lessee, and Lessee's successors and assigns, hereby agree not to seek recourse against the personal assets of Lessor, including any individuals and/or Lessor's partners (either general or limited) for the satisfaction of any actual or alleged liability of Lessor to Lessee under the Lease, but Lessee shall look only to Lessor's interest in the Premises for the satisfaction of any liability of Lessor to Lessee hereunder.

16. Counterparts. This Amendment may be signed by any number of counterparts with the same effect as if the signatures to any counterpart were upon the same instrument.

17. Signatories. The signatories herein below represent that s/he has the authority of her/his respective corporation or partnership to enter into this Amendment.

18. Lease to Remain in Full Force and Effect. Except as set forth in this Amendment, all terms, conditions, provisions and covenants of the Lease shall remain unchanged and in full force and effect.

AGREED AND ACCEPTED:

LESSOR:	LESSEE:
A & R Management and Development Co., a California general partnership, Stanley Black and Joyce Black	UDT Sensors, Inc., a California corporation
By: /s/ ----------	By: /s/ ----------
Title: ----------	Title: ----------
Date: ----------	Date: ----------

EXHIBIT 10.14

DATED THIS 17TH DAY OF JANUARY , 1997

BETWEEN

ARTLOON SUPPLIERS SDN. BHD. (170818-K)

. . . LANDLORD

AND

OPTO SENSORS (M) SDN. BHD. (307669-T)

. . . TENANT

TENANCY AGREEMENT

REF.: ASSB/OSSB/97/GPB

PREMISES
- --------

NO. 18, JALAN FIRMA 2/2
KAWASAN PERINDUSTRIAN TEBRA I
8110 JOHOR BAHRU

THIS AGREEMENT is made the day and year stated in Section 1 of the FIRST SCHEDULE hereto Between the Landlord whose name and description are stated in Section 2 of the FIRST SCHEDULE hereto (hereinafter referred to as "the Landlord") of the one part And the Tenant whose name and description are stated in Section 3 of the FIRST SCHEDULE hereto (hereinafter referred to as "the Tenant") of the other part.

WHEREAS the Landlord has agreed to let and the Tenant has agreed to take all the property more particularly described in the SECOND SCHEDULE HERETO (hereinafter referred to as "the Demised Premises") on the terms and conditions hereinafter appearing.

NOW THIS AGREEMENT WITNESSETH as follows:

1. The Landlord lets and the Tenant takes all the Demised Premises for the period stated in Section 1 of the THIRD SCHEDULE hereto at the monthly rental stated in Section 2 of the THIRD SCHEDULE hereto payable in advance on the first day of each and every succeeding month, the first payment to be made upon the commencement of the tenancy hereby created.

2. Upon the execution of this Agreement the Tenant shall deposit with the Landlord the sum stated in Section 3 of the THIRD SCHEDULE hereto (hereinafter referred to as "the said Deposit" and the receipt whereof the Landlord hereby acknowledges) as security for the due performance and observance by the Tenant of all and singular the several covenants stipulations terms and conditions on the part of the Tenant herein contained. The said Deposit less such sum or sums as may be due to the Landlord shall be refunded to the Tenant without interest on the expiration of this Agreement. PROVIDED ALWAYS that the said Deposit shall not in any circumstances be treated as payment of rent in advance.

3. THE TENANT HEREBY COVENANTS WITH THE LANDLORD as follows:

(a) To pay the reserved rent on the day and in the manner aforesaid.

(b) To pay all existing and future charges for supply of electricity and water including deposit thereof in respect of the Demised Premises.

(c) To keep in good and tenantable repair and condition the Demised Premises fair wear and tear excepted.

(d) To permit the Landlord and his agent(s) with or without workmen and others at all reasonable times but with prior reasonable notice to enter upon or examine the condition of the Demised Premises and to execute repairs to the same.

(e) To comply with all rules, regulations and by-laws of the local authorities concerned in respect of the Demised Premises.

(f) Not to do or permit to be done on the Demised Premises any thing which will or may infringe any of the laws, by-laws or regulations in force or which may be a nuisance or annoyance to or in any way interfere with the quite and comfort of the occupants of neighboring premises.

(g) Not to make or permit to be made any alteration or addition to the said Demised Premises without previous consent in writing of the Landlord and upon such consent

having been granted the Tenant shall cause plans and drawings of the alterations or additions to the Demised Premises to be drawn and submitted to the relevant authorities for approval and the costs and expenses incurred thereby shall be borne by the Tenant and all alterations, additions and all fixtures and fittings so attached or affixed to the Demised Premises shall belong to the Landlord without any claim by the Tenant for compensation or other claims whatsoever.

(h) Not to do or permit or suffer to be done anything whereby the policy or policies of insurance on the premises against any loss or damage by fire for the time being subsisting may become void or voidable or whereby the rate of premium there on may be increased and to indemnify and keep indemnified the Landlord any increase in the said premium and all expenses incurred by the Landlord on or about any renewal of such policy or policies rendered necessary by a breach or non-observance of this covenant.

(i) Not to permit or suffer any sale by auction to be held on the Demised Premises.

(j) At the expiration or sooner determination of the term hereby created to yield up the Demised Premises in good and tenantable repair and conditions (fair wear and tear only accepted).

(k) Not at any time to use or permit or suffer the said Demised Premises or any part thereof to be used for illegal or immoral purposes.

(l) Not to keep or permit to be kept upon the said Demised Premises or any part thereof any materials of a dangerous, explosive or noxious nature or the keeping of which may contravene any statute regulation or by-laws currently applicable.

(m) Not to carry on any trade or business as an undertaker or relating to funeral parlous or the sale or purchase of coffin.

(n) The Tenant shall use the Demised Premises for the purpose as permitted under Section 6 of the Third Schedule.

4. THE LANDLORD HEREBY COVENANTS WITH THE TENANT as follows:

(a) To pay all quit rent assessments and other outgoings upon the Demised Premises and payable by the Landlord.

(b) That the Tenant paying the rent hereby reserved and observing and performing the several covenants hereby on his part contained shall peacefully hold and enjoy the Demised Premises during the said term without any claim through under or in trust for them.

(c) To refund to the Tenant without interest thereon the Deposit in the sum stated in Section 3 of the THIRD SCHEDULE hereto on the due expiration of this tenancy or such extended term or terms less such sum or sums which may be due and owing to the Landlord for any breach of covenant on the part of the Tenant to be performed.

(d) At the determination of the term hereby granted to allow the Tenant to remove all his own fittings subject to the Tenant paying reasonable compensation for any damage caused by such removal.

5. PROVIDED ALWAYS AND IT IS HEREBY EXPRESSLY AGREED BETWEEN THE PARTIES HERETO as follows:

(a) If at any time the monthly rent hereby covenant to be paid by the Tenant to the Landlord or any part thereof shall remain unpaid for seven (7) days after becoming due and payable whether formally demanded or not, or if the covenants on the Tenant's part herein contained shall not be performed or observed or if the Tenant shall become wound-up or suffer any distress or execution to be levied against the assets of the Tenant then in any such case it shall be lawful for the Landlord at any time thereafter without notice to re-enter upon the Demised Premises or any part thereof in the name of the whole and thereupon this Tenancy shall absolutely determine but without prejudice to the right of action of the Landlord in respect of any antecedent breach of the Tenant's covenant hereinbefore contained.

(b) If the Tenant shall be desirous of extending the Tenancy hereby crated for a further term the Tenant shall not more than (2) months before the expiration of the term hereby created give to the Landlord notice in writing of such his desire and if he (the Tenant) shall have performed and observed the several stipulations herein contained and on his part to be performed and observed up to the termination of the tenancy hereby created then the Landlord will let the Demised Premises to the Tenant for the further term stated in Section 4 of the THIRD SCHEDULE hereto from the expiration of the term hereby created at the rental described in Section 5 of the THIRD SCHEDULE hereto and subject in all other respects to the same stipulations as herein contained except this clause for renewal.

(c) In the event that the Demised Premises or any part thereof shall at any time during the said term be destroyed or damaged by fire, earthquake, the enemies of the Government of Malaysia, civil commotion or other disaster so as to render the Demised Premises or a part thereof unfit for occupation and use the rent hereby reserved or a fair portion thereof according to the nature and extend of the damage sustained shall be suspended until the Demised Premises or such part thereof shall again be rendered fit occupation or use provided that in case of fire where such fire has been caused by the default or negligence of the Tenant or the Tenant's servant or agent, invitees or licensees the Tenant shall still remain liable for the payment of the rent in full for the period in which the said premises shall remain unfit for use.

(d) Should this tenancy be determined by the Tenant at any time before the expiry of the term hereby created either voluntarily or by virtue of Clause 5(a) herein the said Deposit stated in Clause 2 shall the be absolutely forfeited to the Landlord without prejudice to any right of action the Landlord may have against the Tenant in respect of the unpaid rents or any antecedent breach of the terms of the tenancy.

(e) It is hereby expressly agreed by the Parties that the "SPECIAL CONDITIONS" shall prevail over the term or terms contained in Clause 1 to 5(d) aforesaid.

(f) Time wherever stated herein shall be of the essence.

(g) Any notice to be given under this Agreement shall be in writing and shall be sufficiently served on the Landlord if sent to him by prepaid registered post addressed to him at his address herein stated or to his last known address in West Malaysia and any notice to the Tenant shall be in writing and shall be sufficiently served to the Tenant if sent to him at his address herein stated or to his last known address in West Malaysia and any notice sent aforesaid shall be deemed to have been received in the ordinary course of post.

(h) In this Agreement wherever the context admits the expressions the "Landlord" and the "Tenant" shall mean and include their respective heirs-at-law, personal _____ representative, _____ executors, administrators, successors-in-title and permitted assigns as the case may be and when two (2) or more persons are included in the expression their liabilities under this Agreement shall be joint and several. Words importing the masculine gender shall be deemed and takes to include the feminine and neuter genders and the singular to include the plural and vice versa.

(i) The Tenant shall bear and pay the stamp duties on this Agreement.

(j) In the event of the Landlord being rendered necessary to take steps to defend any actions or claims that may be taken against the Landlord arising from any default or neglect or action or non-action on the part of the Tenant to be performed by virtue of the Landlord being the registered owner of the Demised Premises and in the event of the Landlord having to issue out and serve upon the Tenant any notice of demand or legal process for the recovery of rent or any money payable to the Landlord under this Agreement then in any of such event the Tenant shall bear and pay the Landlord all costs and expense (and in the case where the Landlord engages a solicitor such solicitor's fee on a solicitor and client basis) besides such money payable to the Landlord upon demand.

THE FIRST SCHEDULE ABOVE REFERRED TO

Section No.	Item	Particulars
1.	The day and year of this Agreement	This 17th day of January 1997
2.	Name and Description of the Landlord	ARTLOON SUPPLIERS SDN. BHD. (170818-K) No. 46-02 Jalan Tun Abdul Razak, Sunsur 1, 80000 Johor Bahru
3.	Name and Description of the Tenant	OPTO SENSORS (M) SDN. BHD. (307669-T) No. 8 Jalan Firma 2/2 Kawasan Perindustrian Tebra I, 81100 Johor Bahru

THE SECOND SCHEDULE ABOVE REFERRED TO

The Ground Floor of that Demised Premises known as No. 18, Jalan Firma 2/2, Kawasan Perindustrian Tebrau I, 81100 Johor Bahru.

THE THIRD SCHEDULE ABOVE REFERRED TO

Section No.	Item	Particulars
1.	Period of Tenancy	ONE (1) year commencing from the 1st day of January 1997 to the 31st day of December 1997
2.	The monthly rental in respect of the Demised Premises	Ringgit Malaysia: THIRTEEN THOUSAND (RM13,000.00) ONLY.
3.	Deposit paid upon signing of this Agreement	Ringgit Malaysia: TWENTY-SIX THOUSAND (RM26,000.00) ONLY.
4.	Period of extension of tenancy	ONE (1) YEAR.
5.	Rental in respect of extension of tenancy	TO BE AGREED UPON
6.	Permitted use of the Demised Premises	MANUFACTURING OF OPTICAL MICE, OPTICAL SENSORS, MUSICAL INTERFACE DEVICES, X-RAY SCANNER/SYSTEMS AND PULSE OXIMETERS

THE FOURTH SCHEDULE ABOVE REFERRED TO
(THE "SPECIAL CONDITIONS" REFERRED TO
IN CLAUSE 5(E) HEREIN)

1. The Tenant shall within the last two (2) months of the Tenancy permit the Landlord or his agent(s) to affix without interference upon the Demised Premises a notice to let or for sale the Demised Premises and to permit any person duly authorized by the Landlord or his agent(s) during reasonable times of the day to view the Demised Premises.

2. The Tenant shall pay a sum of RM1,000.00 (Ringgit Malaysia One Thousand Only) being deposit for water (hereinafter called "the Water Deposit") the receipt of which is hereby acknowledged by the Landlord. Upon termination of the Tenancy hereby crated the Landlord shall refund the Water Deposit to the Tenant subject to the Landlord deducting such sum or sums for outstanding bills to be paid to the relevant authorities if the sum or sums is not paid by the Tenant.

3. The Tenant shall apply directly to the relevant authorities for the supply of electricity to the Demised Premises.

4. All equipment, machinery and etceteras and public liabilities (third party claims) insurance shall be insured by the Tenant.

5. The Tenant hereby agree to permit/share with the tenant of the First Floor of the Demised Premises the right of access the compound around the Demised Premises in the manner as indicated in Appendix I attached hereto.

6. In the event the Landlord has a potential tenant for the first floor of the Demised Premises, the Landlord shall grant the Tenant i.e. Opto Sensors (M) Sdn. Bhd. the first right of refusal valid for seven (7) days from the date of notice.

IN WITNESSES WHEREOF the parties hereto have hereunto set their hands the day and year first above written.

SIGNED and DELIVERED by /s/
the above named Landlord
in the presence of:

SIGNED and DELIVERED by /s/
the above named Tenant
in the presence of:

EXHIBIT 10.15

CREDIT AGREEMENT

This Credit Agreement (the "Agreement") is made and entered into this 24 day of January, 1997, by and between SANWA BANK CALIFORNIA (the "Bank") and OPTO SENSORS, INC., UDT SENSORS, INC. RAPISCAN SECURITY PRODUCTS (U.S.A.), INC. and FERSON OPTICS, INC. (each a "Borrower" and together, the "Borrowers"), on the terms and conditions that follow:

SECTION 1.

DEFINITIONS

1.01 Certain Defined Terms: Unless elsewhere defined in this Agreement, the following terms shall have the following meanings (such meanings to be generally applicable to the singular and plural forms of the terms defined):

(a) "ADVANCE": shall mean an advance to any Borrower under the Line of Credit.

(b) "BUSINESS DAY": shall mean a day, other than a Saturday or Sunday, on which commercial banks are open for business in California.

(c) "COLLATERAL": shall mean the property described in Section 3.01, together with any other personal or real property in which the Bank may be granted a lien or security interest to secure payment of the Obligations.

(d) "DEBT": shall mean all liabilities of each Borrower less Subordinated Debt.

(e) "EFFECTIVE TANGIBLE NET WORTH": shall mean each Borrower's stated net worth plus Subordinated Debt but less the book value of all intangible assets of such Borrower (i.e., goodwill, trademarks, patents, copyrights, organization expense and similar intangible items including, but not limited to investments in and all amounts due from affiliates, officers or employees).

(f) "ERISA": shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, including (unless the context otherwise requires) any rules or regulations promulgated thereunder.

(g) "EQUIPMENT": shall mean equipment as defined in the California Uniform Commercial Code.

(h) "EVENT OF DEFAULT": shall have the meaning set forth in Section 7.

(i) "EXPIRATION DATE": shall mean November 30, 1998 or the date of termination of the Bank's commitment to lend under this Agreement pursuant to Section 8, whichever shall occur first.

(j) "INDEBTEDNESS": shall mean, with respect to each Borrower, (i) all indebtedness for borrowed money or for the deferred purchase price of property or services in respect of which any Borrower is liable, contingently or otherwise, as obligor, guarantor or otherwise, or in respect of which Borrower otherwise assures a creditor against loss and (ii) obligations under leases which shall have been or should be,

in accordance with generally accepted accounting principles, reported as capital leases in respect of which any Borrower is liable, contingently or otherwise, or in respect of which any Borrower otherwise assures a creditor against loss.

(k) "LINE OF CREDIT": shall mean the credit facility described in Section 2.01.

(l) "OBLIGATIONS": shall mean all amounts owing by each Borrower to the Bank pursuant to this Agreement including, but not limited to, the unpaid principal amount of Advances.

(m) "PERMITTED LIENS": shall mean: (i) liens and security interests securing indebtedness owed by each Borrower to the Bank; (ii) liens for taxes, assessments or similar charges either not yet due or being contested in good faith; (iii)liens of materialmen, landlords, mechanics, warehousemen, or carriers or other like liens arising in the ordinary course of business and securing obligations which are not yet delinquent; (iv) purchase money liens or purchase money security interests upon or in any property acquired or held by each Borrower in the ordinary course of business to secure Indebtedness outstanding on the date hereof or permitted to be incurred under Section 6.10 hereof; (v) liens and security interests which, as of the date hereof, have been disclosed to and approved by the Bank in writing; and (vi) those liens and security interests which in the aggregate constitute an immaterial and insignificant monetary amount with respect to the net value of each Borrower's assets; (vii) liens against UDT Sensors, Inc. ("UDI") which may hereafter be granted in favor of the United States of America as set forth in that certain Stipulation for Consent Judgment referred to in and executed pursuant to that certain Criminal Plea and Sentencing Agreement between UDT and the United States Attorney's Office for the Central District of California, provided that such liens, if granted to the United States of America, shall be subordinated to those of the Bank pursuant to a subordination agreement in form and substance satisfactory to the Bank.

(n) "REFERENCE RATE": shall mean an index for a variable interest rate which is quoted, published or announced from time to time by the Bank as its reference rate and as to which loans may be made by the Bank at, below or above such reference rate.

(o) "SUBORDINATED DEBT": shall mean such liabilities of each Borrower which have been subordinated to those owed to the Bank in a manner acceptable to the Bank.

(p) "VALUE": shall mean the lesser of: the invoice cost of the Equipment (including taxes, license fees, transportation costs, insurance premiums, and installation and connection expenses, fees and costs); or the book value of the Equipment; or the liquidation value of the Equipment as reasonably determined by the Bank.

1.02 Accounting Terms: All references to financial statements, assets, liabilities, and similar accounting items not specifically defined herein shall mean such financial statements or such items prepared or determined in accordance with generally accepted accounting principles consistently applied and, except where otherwise specified, all financial data submitted pursuant to this Agreement shall be prepared in accordance with such principles.

1.03 Other Terms: Other terms not otherwise defined shall have the meanings attributed to such terms in the California Uniform Commercial Code.

SECTION 2.

THE LINE OF CREDIT

2.01 The Line of Credit: On terms and conditions as set forth herein, the Bank agrees to make Advances to each Borrower from time to time from the date hereof to the Expiration Date, provided the aggregate amount of such Advances outstanding at any time does not exceed $10,000,000 (the "Line of Credit"). Within the foregoing limits, each Borrower may borrow, partially or wholly prepay, and reborrow under this Section 2.01.

(a) Making Line Advances: Each Advance shall be conclusively deemed to have been made at the request of and for the benefit of any Borrower (i) when credited to any deposit account of either Borrower maintained with the Bank or (ii) when paid in accordance with such Borrower's written instructions.

(b) Line Account: The Bank shall maintain on its books a record of account in which the Bank shall make entries for each Advance and such other debits and credits as shall be appropriate in connection with the Line of Credit (the "Line Account"). The Bank shall provide the Borrowers with a monthly statement of the Borrowers' Line Account, which statement shall be considered to be correct and conclusively binding on the Borrowers unless any Borrower notifies the Bank to the contrary within 18 months after such Borrower's receipt of any such statement which it deems to be incorrect. Each Borrower hereby authorizes the Bank, if and to the extent payment owed to the Bank under the Line of Credit is not made when due, to charge, from time to time, against any or all of any Borrower's deposit accounts with the Bank any amount so due.

(c) Mandatory Repayments: On the Expiration Date, each Borrower hereby jointly and severally promises and agrees to pay to the Bank in full the aggregate unpaid principal amount of all Advances then outstanding, together with all accrued and unpaid interest thereon.

(d) Interest on Advances: Interest shall accrue from the date of each Advance under the Line of Credit at one of the following rates, as quoted by the Bank and as elected by any Borrower below:

1. Variable Rate Advances: A variable rate per annum equivalent to
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the Reference Rate plus .25% (the "Variable Rate"). Interest shall be adjusted concurrently with any change in the Reference Rate. An Advance based upon the Variable Rate is hereinafter referred to as a "Variable Rate Advance".

2. LIBOR Advances: A fixed rate quoted by the Bank for 1, 2, 3, or 6
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months or for such other period of time that the Bank may quote and offer (provided that any such period of time does not extend beyond the Expiration Date) [the "LIBOR" Interest Period"] for Advances in the minimum amount of $500,000 and in $100,000 increments thereafter. Such interest rate shall be a percentage approximately equivalent to 2.25% in excess of the Bank's LIBOR Rate which is that rate determined by the Bank's Treasury Desk as being the arithmetic mean (rounded upwards, if necessary, to the nearest whole multiple of one-sixteenth of one percent (1/16%) of the U.S. dollar London Interbank Offered Rates for such period appearing on page 3750 (or such other page as may replace page 3750) of the Telerate screen at or about 11:00 a.m. (London time) on the second Business Day prior to the first days of such period (adjusted for any and all assessments, surcharges and reserve requirements) [the "LIBOR" Rate"]. An Advance based upon the LIBOR Rate is hereinafter referred to as a "LIBOR Advance".

Interest on any Advance shall be computed on the basis of 360 days per year, but charged on the

actual number of days elapsed.

Interest on Variable Rate Advances and LIBOR Advances shall be paid monthly commencing on the first day of the month following the date of the first such Advance and continuing on the first day of each month thereafter.

(e) Notice of Borrowing: Upon telephonic notice which shall be received by the Bank at or before 2:00 p.m. (California time) on a Business Day, each Borrower may borrow under the Line of Credit by requesting:

1. A Variable Rate Advance. A Variable Rate Advance may be made on the day notice is received by the Bank; provided, however, that if the Bank shall not have received notice at or before 2:00 p.m. on the day such Advance is requested to be made, such Variable Rate Advance may, at the Bank's option, be made on the next Business Day.

2. A LIBOR Advance. Notice of any LIBOR Advance shall be received by the Bank no later than two Business Days prior to the day (which shall be a Business Day) on which the Borrower requests such LIBOR Advance to be made.

(f) Notice of Election to Adjust Interest Rate: The Borrowers may elect:

1. That interest on a Variable Rate Advance shall be adjusted to accrue at the LIBOR Rate; provided, however, that such notice shall be received by the Bank no later than two Business Days prior to the day (which shall be a Business Day) on which any Borrower requests that interest be adjusted to accrue at the LIBOR Rate.

2. That interest on a LIBOR Advance shall continue to accrue at a newly quoted LIBOR Rate or shall be adjusted to commence to accrue at the Variable Rate; provided, however, that such notice shall be received by the Bank no later than two Business Days prior to the last day of the LIBOR Interest Period pertaining to such LIBOR Advance. If the Bank shall not have received notice (as prescribed herein) of any Borrower's election that interest on any LIBOR Advance shall continue to accrue at the newly quoted LIBOR Rate, such Borrower shall be deemed to have elected that interest thereon shall be adjusted to accrue at the Variable Rate upon the expiration of the LIBOR Interest Period pertaining to such Advance.

(g) Prepayment. The Borrowers may prepay any Advance under the Line of Credit in whole or in part, at any time and without penalty, provided, however, that: (i) any Partial prepayment shall first be applied, at the Bank's option, to accrued and unpaid interest and next to the outstanding principal balance under the Line of Credit; and (ii) during any period of time in which interest is accruing on any Advance on the basis of the LIBOR Rate, no prepayment shall be made except on a day which is the last day of the LIBOR Interest Period pertaining thereto. If the whole or any part of any LIBOR Advance is prepaid by reason of acceleration or otherwise, the Borrowers shall, jointly and severally, upon the Bank's request, promptly pay to and indemnify the Bank for all costs, expenses and any loss (including loss of future interest income) actually incurred by the Bank and any loss (including loss or profit resulting from the re-employment of funds) deemed sustained by the Bank as a consequence of such prepayment.

The Bank shall be entitled to fund all or any portion of its Advances in any manner it may determine in its sole discretion, but all calculations and transactions hereunder shall be conducted as though the Bank actually funded all Advances through the purchase of dollar deposits in the London Interbank Market in the

amount of the relevant Advance and in maturities corresponding to the date of such purchase to the Expiration Date hereunder.

(h) Indemnification of LIBOR Rate Costs: During any period of time in which interest on any Advance is accruing on the basis of the LIBOR Rate, the Borrowers shall, jointly and severally, upon the Bank's request, promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment reserve, deposit or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to funds used by the Bank in quoting and determining the LIBOR Rate.

(i) Conversion from LIBOR Rate to Variable Rate: In the event that the Bank shall at any time determine that the accrual of interest on the basis of the LIBOR Rate (i) is infeasible because the Bank is unable to determine the LIBOR Rate due to the unavailability of U.S. dollar deposits, contracts or certificates of deposit in an amount approximately equal to the amount of the relevant Advance and for a period of time approximately equal to relevant LIBOR Interest Period or (ii) is or has become unlawful or infeasible by reason of the Bank's compliance with any new law, rule, regulation, guideline or order, or any new interpretation of any present law, rule, regulation, guideline or order, then the Bank shall give telephonic notice thereof (confirmed in writing) to the Borrowers, in which event any Advance bearing interest at the LIBOR Rate, shall thereafter be deemed to be a Variable Rate Advance and interest shall thereupon immediately accrue at the Variable Rate.

2.02 Letters of Credit: The Bank agrees to issue commercial and stand-by letters of credit (each a "Letter of Credit") on behalf of the Borrower, provided, however, at no time shall the total face amount of all Letters of Credit outstanding less any partial draws paid by the Bank and not reimbursed by the Borrower exceed the sum of $10,000,000.00, and provided further, at no time shall the total undrawn amount of all Letters of Credit outstanding plus any partial draws paid by the Bank and not reimbursed by the Borrowers, together with the total principal amount of all Advances outstanding exceed the Line of Credit.

(a) Upon the Bank's request, each Borrower shall, jointly and severally, promptly pay to the Bank issuance fees and such other fees, commissions, costs and any out-of-pocket expenses charged or incurred by the Bank with respect to any Letter of Credit.

(b) The commitment by the Bank to issue Letters of Credit shall unless earlier terminated in accordance with the terms of the Agreement, automatically terminate on the Expiration Date and no Letter of Credit shall expire on a date which is after the Expiration Date.

(c) Each Letter of Credit shall be in form and substance and in favor of beneficiaries satisfactory to the Bank, provided that the Bank may refuse to issue a Letter of Credit due to the nature of the transaction or its terms or in connection with any transaction where the Bank, due to the beneficiary or the nationality or residence of the beneficiary, would be prohibited by any applicable law, regulation or order from issuing such Letter of Credit.

(d) Prior to the issuance of each Letter of Credit but in no event later than 9:00 a.m. (California time) on the day such Letter of Credit is to be issued (which shall be a Business Day), the relevant Borrower shall deliver to the Bank International Department a duly executed form of the Bank's standard form of application for issuance of letter of credit with proper insertions.

(e) The Borrowers shall, jointly and severally, upon the Bank's request, promptly pay

to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to any Letter of Credit.

2.03 Acceptance Facility: Any Borrower may from time to time request the Bank to accept one or more drafts drawn on the Bank for the account of the Borrowers (each an "Acceptance"). At no time, however, shall the total principal balance of all Acceptances outstanding, together with the total face amount of all outstanding Letters of Credit less any partial draws paid by the Bank and the total principal balance of all Advances outstanding, exceed the Line of Credit.

(a) Requests for Acceptances: Each request for an Acceptance shall be made in writing or by telephone confirmed in writing (each a "Request"), shall be irrevocable, and shall involve one or more drafts as described below. Each Request shall be delivered or communicated to the Bank no later than 12:00 p.m. (California time) on the day (which shall be a business day) on which the creation of an Acceptance is requested. By making any such Request, the Borrower agrees that all matters relating to each such Acceptance shall be governed by the terms hereof and the Borrower restates all warranties and representations made by the Borrower herein as if made on the date of the Request and on the date that the Acceptance is created.

(b) Acceptances: Each Acceptance shall be created upon a Request by the Bank's acceptance of a draft in form and substance satisfactory to the Bank (each a "Draft"). Each Draft shall: (i) be drawn on the Bank by or on behalf or for the account of the Borrowers in accordance with the provisions hereof, (ii) have a minimum face amount of $100,000; (iii) be for the purpose of financing only those transactions permitted by paragraph 7 of Section 13 of the Federal Reserve Act, as amended from time to time; and (iv) mature not more than 90 days after the date thereof (provided that, if such date is not a business day, the maturity shall be extended to the next succeeding business day). However, no Draft shall mature more than 90 days after the Expiration Date. Each Borrower hereby warrants that any Acceptances relating to the importation or exportation of goods or relating to the domestic shipment of goods shall: (i) not have a term in excess of the period of time which is usual and reasonably necessary to finance transactions of the character of the underlying import or export transaction or the underlying domestic shipment; (ii) not, together with all other Acceptances relating to any such shipment have an aggregate face amount exceeding the CIF value of such shipment; and (iii) not be created more than 30 days after the date of shipment of goods to which such Acceptance relates. Acceptances relating to the storage of goods shall be subject to the further conditions that: (i) at the time such Acceptance is created, the goods being stored are covered by a warehouse receipt issued by a bonded warehouse independent of the Borrower and acceptable to the Bank; (ii) the goods covered by the warehouse receipt are readily marketable staples (as such term is defined in Section 13 of the Federal Reserve Act by the Board of Governors of the Federal Reserve System or by Federal Reserve Bulletins) held pending a reasonably immediate sale, distribution or shipment; and (iii) the face amount of the Acceptance relating to such goods does not exceed the fair market value of the goods.

(c) Acceptance Liability: Each Borrower is obligated, and hereby jointly and severally promises and agrees to pay the Bank, on the maturity date of each Acceptance or on such earlier date as may be required pursuant hereto, the face amount of each such Acceptance.

(d) Acceptance Commissions: Each Borrower agrees, jointly and severally, upon acceptance by the Bank of each Draft and as a condition precedent to such Acceptance, to pay to the Bank a fee (the "Commission") in an amount equal to 1.5% per annum of the face amount of each Acceptance calculated on the basis of 360 days per year for the actual number of days (including the first day but

excluding the last day) during the period which is for the term of the Draft.

(e) Discount of Acceptances: The Bank agrees to discount any Acceptance that is created and presented to the Bank for discount at a rate quoted by the Bank at the time the Acceptance is presented to the Bank for discount and for a similar dollar amount and a similar maturity as the Draft being presented to the Bank by the Borrower for acceptance (the "Acceptance Discount Rate"). On the date any such Acceptance is presented for discount, the Bank shall: (i) cause the aggregate discounted amount (less any Commission then payable by the Borrowers to the Bank hereunder) to be made available to the Borrowers by crediting such amount to any Borrower's demand deposit account maintained with the Bank, unless the Acceptance is created by a beneficiary under a Letter of Credit, in which event the Bank will cause the amount to be paid to such beneficiary and will notify the Borrowers as to the creation of the Acceptance; and (ii) advise the Borrowers of the Acceptance Discount Rate at which the Bank discounted such Acceptance. The Bank shall have the right, in its sole discretion, to sell, rediscount, hold or otherwise deal with or dispose of any such Acceptance discounted by it.

(f) Acceptance Collateral: Each Draft accepted by the Bank in accordance with the above shall be secured by a security interest in the goods (as defined in the California Uniform Commercial Code) involved in the transaction out of which the Acceptance arose to the extent that such a security interest is either required by the Bank or in order that the relevant Acceptance conform to the requirements of Section 13 of the Federal Reserve Act.

(g) Reserves: Each Borrower shall, jointly and severally, upon the Bank's request promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to any Acceptance.

2.04 Foreign Exchange Faculty: The Borrowers may from time to time request Bank to purchase or sell foreign currency in a specified amount, at a fixed price, and for delivery at a future date no greater than 365 days from the date of purchase (each a "Foreign Exchange Contract"). At no time, however, shall 10% of the aggregate of the settlement price of all Foreign Exchange Contracts outstanding exceed $750,000 as determined by Bank at the time of entering into each Foreign Exchange Contract, and provided further, that all outstanding Advances, Letters of Credit and Acceptances and 10% of the aggregate of the settlement price of the Foreign Exchange Contracts outstanding may not exceed the Line of Credit.

(a) Requests for Foreign Exchange Contracts: Each request for a Foreign Exchange Contract shall be made by telephone or rapifax, confirmed in writing (each a "Request"). Each Request shall be delivered or communicated to the Bank no later than 3:00 p.m. (California time) on the day (which shall be a business day) on which the Foreign Exchange Contract is requested. By making any such Request, each Borrower agrees that all matters relating to each such Foreign Exchange Contract shall be governed hereby and each Borrower restates all warranties and representations made by Borrower herein as if made on the date the Foreign Exchange Contract is entered into.

(b) Expiration Date: The commitment by the Bank to enter into Foreign Exchange Contracts shall, unless earlier terminated in accordance with this Agreement, automatically terminate on the Expiration Date and no Foreign Exchange Contract shall expire on a date which is after the Expiration Date.

(c) Availability: Bank may refuse to enter into a Foreign Exchange Contract with the Borrower where the Bank, in its sole discretion, determines that such foreign currency is unavailable, or

where Bank would be prohibited by any applicable law, regulation or order from purchasing such foreign currency.

(d) Purpose: The Foreign Exchange Contract shall be used to hedge foreign exchange exposure and/or risk.

(e) Payment: Payment is due on the settlement date of any Foreign Exchange Contract (the "Payment Date"). Bank is hereby authorized by each Borrower to charge the full settlement price of any Foreign Exchange Contract against the depository account or accounts maintained by each Borrower with Bank on the Payment Date.

(f) Reserves: The Borrowers shall, jointly and severally, upon the Bank's request, promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit, capital maintenance or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to any Foreign Exchange Contract.

2.05 Equipment Purchase Facility: The Bank hereby agrees to make loans and Advances to assist each Borrower in purchasing items of Equipment, upon a written request therefor made by any Borrower to the Bank prior to November 30, 1997 (the "Equipment Purchase Facility"). Each Advance made hereunder shall be in an amount not to exceed 80% of the Value of the item(s) of Equipment being purchased; provided, however, that at no time shall the total aggregate outstanding principal amount of Advances made hereunder exceed the sum of $1,000,000; and provided further that the amount of any Advance made hereunder which is repaid in whole or in part, may not be reborrowed.

(a) Equipment Account: The Bank shall maintain on its books a record of account in which the Bank shall make entries for each Advance and such other debits and credits as shall be appropriate in connection with the Equipment Purchase Facility (the "Equipment Account"). The Bank shall provide the Borrowers with a monthly statement of the Borrowers' Equipment Account, which statement shall be considered to be correct and conclusively binding on the Borrower unless any Borrower notifies the Bank to the contrary within 18 months after such Borrower's receipt of any such statement which it deems to be incorrect.

(b) Interest on Advances: Interest shall accrue from the date of each Advance under the Equipment Purchase Facility at one of the following rates, as quoted by the Bank and as elected by any Borrower below:

1. Variable Rate Advances: A variable rate per annum equivalent to
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the Variable Rate plus .25% ("Equipment Variable Rate"). Interest shall be adjusted concurrently with any change in the Reference Rate. An Advance based upon the Variable Rate plus .25% is hereinafter referred to as an Equipment Variable Rate Advance".

2. Fixed Rate Advances: A fixed rate quoted by the Bank for at least
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30 days or for such other period of time that the Bank may quote and offer (provided that any such period of time does not extend beyond November 30, 1997) [the "Interest Period"] for Advances in the minimum amount of $100,000. Such interest rate shall be a percentage approximately equivalent to 2.5% per annum in excess of the rate which the Bank determines in its sole and absolute discretion to be equal to the Bank's cost of acquiring funds (adjusted for any and all assessments, surcharges and reserve requirements pertaining to the borrowing or purchase by the Bank of such funds) in an amount approximately equal to the amount of the

relevant Advance and for a period of time approximately equal to the relevant Interest Period (the "Fixed Rate"). Advances based upon the Fixed Rate are hereinafter referred to as "Fixed Rate Advances".

Interest on any Advance shall be computed on the basis of 360 days per year, but charged on the actual number of days elapsed.

Interest on Equipment Variable Rate Advances and Fixed Rate Advances shall be paid in monthly installments commencing on the first day of the month following the date of the first such Advance and continuing on the first day of each month thereafter.

(c) Notice of Borrowing: Upon telephonic notice which shall be received by the Bank at or before 2:00 p.m. (California time) on a business day, each Borrower may borrow under the Equipment Purchase Facility by requesting an Equipment Variable Rate Advance or a Fixed Rate Advance. An Equipment Variable Rate Advance or a Fixed Rate Advance may be made on the day notice is received by the Bank; provided, however, that if the Bank shall not have received notice at or before 2:00 p.m. on the day such Advance is requested to be made, such Equipment Variable Rate Advance or Fixed Rate Advance may, at the Bank's option, be made on the next Business Day.

(d) Notice of Election to Adjust Interest Rate: The Borrowers may elect:

1. That interest on a Equipment Variable Rate Advance shall be adjusted to accrue at the Fixed Rate, provided, however, that such notice shall be received by the Bank no later than 2:00 p.m. on the Business Day on which such Borrower requests that interest be adjusted to accrue at the Fixed Rate.

2. That interest on a Fixed Rate Advance shall continue to accrue at a newly quoted Fixed Rate or shall be adjusted to commence to accrue at the Equipment Variable Rate; provided, however, that such notice shall be received by the Bank no later than 2:00 p.m. on the last day of the Interest Period pertaining to such Fixed Rate Advance. If the Bank shall not have received notice (as prescribed herein) of any Borrower's election that interest on any Fixed Rate Advance shall continue to accrue at the newly quoted Fixed Rate such Borrower shall be deemed to have elected that interest thereon shall be adjusted to accrue at the Equipment Variable Rate upon the expiration of the Interest Period pertaining to such Advance.

(e) Prepayment: The Borrowers may prepay any Advance under the Equipment Purchase Facility in whole or in part, at any time and without penalty, provided, however, that: (i) any partial prepayment shall first be applied, at the Bank's option, to accrued and unpaid interest and next to the outstanding principal balance under the Equipment Purchase facility, and (ii) during any period of time in which interest is accruing on any Advance on the basis of the Fixed Rate, no prepayment shall be made except on a day which is the last day of the Interest Period pertaining thereto. If the whole or any part of any Fixed Rate Advance is prepaid by reason of acceleration or otherwise, each Borrower shall, jointly and severally, upon the Bank's request, promptly pay to and indemnify the Bank for all costs, expenses and any loss (including loss of future interest income) actually incurred by the Bank and any loss (including loss of profit resulting from the re-employment of funds) deemed sustained by the Bank as a consequence of such prepayment.

The Bank shall be entitled to fund all or any portion of its Advances in any manner it may determine in its sole discretion, but all calculations and transactions hereunder shall be conducted as though the Bank actually funded all Advances through the purchase of dollar deposits earning interest at a rate equal to the

interest rate payable on U.S. Treasury securities in the amount of the relevant Advance and in maturities corresponding to the date of such purchase to November 30, 1997.

(f) Indemnification for Fixed Rate Costs: During any period of time in which interest on any Advance is accruing on the basis of the Fixed Rate each Borrower shall, jointly and severally, upon the Bank's request, promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to funds used by the Bank in quoting and determining the Fixed Rate.

(g) Conversion from Fixed Rate to Equipment Variable Rate: In the event that the Bank shall at any time determine that the accrual of interest on the basis of the Fixed Rate (i) is infeasible because the Bank is unable to determine the Fixed Rate due to the unavailability of U.S. dollar deposits, contracts or certificates of deposit in an amount approximately equal to the amount of the relevant Advance and for a period of time approximately equal to the relevant Interest Period or (ii) is or has become unlawful or infeasible by reason of the Bank's compliance with any new law, rule, regulation, guideline or order, or any new interpretation of any present law, rule, regulation, guideline or order, then the Bank shall give telephonic notice thereof (confirmed in writing) to the Borrowers, in which event any Advance bearing interest at the Fixed Rate, shall thereafter be deemed to be a Equipment Variable Rate Advance and interest shall thereupon immediately accrue at the Equipment Variable Rate.

(h) Maturity: On November 30, 1997, each Borrower hereby jointly and severally promises and agrees to pay to the Bank in full the aggregate unpaid principal amount of all Advances then outstanding under the Equipment Purchase Facility, together with all accrued and unpaid interest thereon.

(i) Conversion to Term Loan: It is hereby agreed that the Borrowers may at least 15 days prior to November 30, 1997, convert the principal balance of all Advances outstanding hereunder as of November 30, 1997 to be payable on a term loan basis. The term loan shall be in the amount of such outstanding principal balance and shall be evidenced by a promissory note in form and substance of the promissory note attached hereto as Exhibit "1" (the "Term Note"). Accrued and unpaid interest hereunder shall be paid to the Bank concurrently with the Borrowees execution of the Term Note. Interest shall accrue and principal and interest shall be paid in accordance with the terms and provisions of the Term Note, provided however that principal shall be payable over a period of up to 60 months if the term loan conversion is elected.

2.06 Term Loan: The Bank agrees to lend to the Borrowers, upon the Borrowers' request made prior to January __, 1997, up to the maximum amount of $2,500,000 (the "Term Loan").

(a) Purpose: Proceeds from the Term Loan shall be used to refinance existing Indebtedness.

(b) Term Loan Account: The Bank shall maintain on its books a record of account in which the Bank shall make entries setting forth all payments made, the application of such payments to interest and principal, accrued and unpaid interest (if any) and the outstanding principal balance under the Term Loan (the "Term Loan Account"). The Bank shall provide the Borrowers with a monthly statement of the Borrowers' Term Loan Account, which statement shall be considered to be correct and conclusively binding on the Borrower unless any Borrower notifies the Bank to the contrary within 18 months after such Borrowees receipt of any such statement which it deems to be incorrect.

(c) Interest: Interest shall accrue on the Term Loan at one of the following rates, as quoted by the Bank and as elected by any Borrower below.

1. Variable Rate Balances: The outstanding principal balance or a portion thereof of the Term Loan ("Term Balance") shall bear interest at a rate per annum equal to the Equipment Variable Rate. A Term Balance bearing interest at the Equipment Variable Rate is hereinafter referred to as a Variable Rate Balance.

2. Fixed Rate Balances: At the Fixed Rate for such period of time that the Bank may quote and offer, provided that any such period of time shall be for the Interest Period as defined hereinabove and provided further that any such period of time does not extend beyond the maturity date of the Term Loan. The Term Balance bearing interest at the Fixed Rate is hereinafter referred to as "Fixed Rate Balances".

Each Borrower hereby jointly and severally promises and agrees to pay interest on any Fixed Rate Balances and any Variable Rate Balance in arrears on the first calendar day of each month. Interest shall be calculated on the basis of a year of 360 days for actual days elapsed.

(d) Notice of Election to Adjust Interest Rate: Upon telephonic notice which shall be received by the Bank at or before 2:00 p.m. (California time) on a Business Day, the Borrowers may elect:

(1) That interest on a Variable Rate Balance shall be adjusted to accrued at the Fixed Rate; provided, however, that such notice shall be received by the Bank no later than two Business Days prior to the day (which shall be a Business Day) on which any Borrower requests that interest be adjusted to accrue at the Fixed Rate.

(2) That interest on a Fixed Rate Balance shall continue to accrue at a newly quoted Fixed Rate or shall be adjusted to commence to accrue at the Equipment Variable Rate; provided, however that such notice shall be received by the Bank no later than two Business Days prior to the last day of the Interest Period pertaining to such Fixed Rate Balance. If the Bank shall not have received notice as prescribed herein of such Borrower's election that interest on any Fixed Rate Balance shall continue to accrue at the Fixed Rate, such Borrower shall be deemed to have elected that interest thereon shall be adjusted to accrue at the Equipment Variable Rate upon the expiration of the Interest Period pertaining to such Term Balance.

(e) Prohibition Against Prepayment of Fixed Rate Balances: The Borrowers may prepay the Term Loan in whole or in part, at any time and without penalty, provided, however, that: (i) any partial prepayment shall first be applied, at the Bank's option, to accrued and unpaid interest and next to the outstanding principal balance under the Term Loan; and (ii) during any period of time in which interest is accruing on any Term Balance on the basis of the Fixed Rate, no prepayment shall be made except on a day which is the last day of the Interest Period pertaining thereto. If the whole or any part of any Fixed Rate Balance is prepaid by reason of acceleration or otherwise, each Borrower shall, jointly and severally, upon the Bank's request, promptly pay to and indemnify the Bank for all costs, expenses and any loss (including loss of future interest income) actually incurred by the Bank and any loss (including loss of profit resulting from the re-employment of funds) deemed sustained by the Bank as a consequence of such prepayment.

The Bank shall be entitled to fund all or any portion of its Term Loan in any manner it may determine in its sole discretion, but all calculations and transactions hereunder shall be conducted as though the Bank actually funded the Term Loan through the purchase of dollar deposits earning interest at a rate equal to the

interest rate payable on U.S. Treasury securities in the amount of the relevant Term Loan Balance and in maturities corresponding to the date of such purchase to the maturity date of the Term Loan.

(f) Indemnification for Fixed Rate Costs: During any period of time in which interest on any Term Balance is accruing on the basis of the Fixed Rate, each Borrower shall, jointly and severally, upon the Bank's request, promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit or similar requirements or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to funds used by the Bank in quoting and determining the Fixed Rate.

(g) Conversion from Fixed Rate to Equipment Variable Rate: In the event that the Bank shall at any time determine that the accrual of interest on the basis of the Fixed Rate (i) is infeasible because the Bank is unable to determine the Fixed Rate due to the unavailability of U.S. dollar deposits, contracts or certificates of deposit in an amount approximately equal to the amount of the relevant Term Balance and for a period of time approximately equal to the relevant Interest Period; or (ii) is or has become unlawful or infeasible by reason of the Banks compliance with any new law, rule, regulation, guideline or order, or any new interpretation of any present law, rule, regulation, guideline or order, then the Bank shall give telephonic notice thereof (confirmed in writing) to the Borrowers, in which event any Fixed Rate Balance shall thereafter be deemed to be a Variable Rate Balance and interest shall thereupon immediately accrue at the Equipment Variable Rate.

(h) Principal: Each Borrower hereby jointly and severally promises and agrees to pay principal in 47 equal installments of $52,083 per installment commencing on April 1, 1997, and continuing on the _____ day of each month thereafter up to and including _____, 2001. On _____, 2001, each Borrower hereby jointly and severally promises and agrees to pay to the Bank the entire unpaid principal balance, together with accrued and unpaid interest.

2.07 Stock Purchase Facility: The Bank hereby agrees to make loans and Advances to assist the Borrowers in the repurchase of the stock of Opto Sensors, Inc., upon a written request therefor made by the Borrowers to the Bank prior to June 30, 1997 (the "Stock Purchase Facility"). At no time shall the total aggregate outstanding principal amount of Advances made hereunder exceed the sum of $1,500,000; and provided further that the amount of any Advance made hereunder which is repaid, in whole or in part, may not be reborrowed.

(a) Stock Account: The Bank shall maintain on its books a record of account in which the Bank shall make entries for each Advance and such other debits and credits as shall be appropriate in connection with the Stock Purchase Facility (the "Stock Account"). The Bank shall provide the Borrowers with a monthly statement of the Borrower's Stock Account, which statement shall be considered to be correct and conclusively binding on the Borrower unless the Borrower notifies the Bank to the contrary within 18 months after any Borrower's receipt of any such statement which it deems to be incorrect.

(b) Interest on Advances: Interest shall accrue from the date of each Advance under the Equipment Purchase Facility at one of the following rates, as quoted by the Bank and as elected by the Borrower below:

1. Stock Variable Rate Advances: A variable rate per annum
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equivalent to the Variable Rate plus .75% ("Stock Variable Rate"). Interest shall be adjusted concurrently with any change in the Reference Rate. An Advance based upon the Stock Variable Rate is hereinafter referred to as an "Stock

Variable Rate Advance".

2. Stock Fixed Rate Advances: A fixed rate quoted by the Bank for at least 30 days or for such other period of time that the Bank may quote and offer (provided that any such period of time does not extend beyond June 30, 1997) [the "Stock Interest Period"] for Advances in the minimum amount of $100,000. Such interest rate shall be a percentage approximately equivalent to 3% per annum in excess of the rate which the Bank determines in its sole and absolute discretion to be equal to the Bank's cost of acquiring funds (adjusted for any and all assessments, surcharges and reserve requirements pertaining to the borrowing or purchase by the Bank of such funds) in an amount approximately equal to the amount of the relevant Advance and for a period of time approximately equal to the relevant Stock Interest Period (the "Stock Fixed Rate"). Advances based upon the Stock Fixed Rate are hereinafter referred to as "Stock Fixed Rate Advances.

Interest on any Advance shall be computed on the basis of 360 days per year, but charged on the actual number of days elapsed.

Interest on Stock Variable Rate Advances and Stock Fixed Rate Advances shall be paid in monthly installments commencing on the first day of the month following the date of the first such Advance and continuing on the first day of each month thereafter.

(c) Notice of Borrowing: Upon telephonic notice which shall be received by the Bank at or before 2:00 p.m. (California time) on a business day, each Borrower may borrow under the Stock Purchase Facility by requesting a Stock Variable Rate Advance or a Stock Fixed Rate Advance. An Stock Variable Rate Advance or a Stock Fixed Rate Advance may be made on the day notice is received by the Bank; provided, however, that if the Bank shall not have received notice at or before 2:00 p.m. on the day such Advance is requested to be made, such Stock Variable Rate Advance or Stock Fixed Rate Advance may, at the Bank's option, be made on the next Business Day.

(d) Notice of Election to Adjust Interest Rate: The Borrowers may elect:

1. That interest on a Stock Variable Rate Advance shall be adjusted to accrue at the Stock Fixed Rate, provided, however, that such notice shall be received by the Bank no later than 2:00 p.m. on the Business Day on which such Borrower requests that interest be adjusted to accrue at the Stock Fixed Rate.

2. That interest on a Stock Fixed Rate Advance shall continue to accrue at a newly quoted Stock Fixed Rate or shall be adjusted to commence to accrue at the Stock Variable Rate; provided, however, that such notice shall be received by the Bank no later than 2:00 p.m. on the last day of the Stock Interest Period pertaining to such Stock Fixed Rate Advance. If the Bank shall not have received notice (as prescribed herein) of any Borrower's election that interest on any Stock Fixed Rate Advance shall continue to accrue at the newly quoted Stock Fixed Rate such Borrower shall be deemed to have elected that interest thereon shall be adjusted to accrue at the Stock Variable Rate upon the expiration of the Stock Interest Period pertaining to such Advance.

(e) Prepayment: The Borrowers may prepay any Advance under the Stock Purchase Facility in whole or in part, at any time and without penalty, provided, however, that: (i) any partial prepayment shall first be applied, at the Bank's option, to accrued and unpaid interest and next to the outstanding principal balance under the Stock Purchase Facility, and (ii) during any period of time in which interest is accruing on any Advance on the basis of the Stock Fixed Rate, no prepayment shall be made except

on a day which is the last day of the Stock Interest Period pertaining thereto. If the whole or any part of any Stock Fixed Rate Advance is prepaid by reason of acceleration or otherwise, the Borrower shall, upon the Bank's request, promptly pay to and indemnify the Bank for all costs, expenses and any loss (including loss of future interest income) actually incurred by the Bank and any loss (including loss of profit resulting from the re-employment of funds) deemed sustained by the Bank as a consequence of such prepayment.

The Bank shall be entitled to fund all or any portion of its Advances in any manner it may determine in its sole discretion, but all calculations and transactions hereunder shall be conducted as though the Bank actually funded all Advances through the purchase of dollar deposits earning interest at a rate equal to the interest rate payable on U.S. Treasury securities in the amount of the relevant Advance and in maturities corresponding to the date of such purchase to June 30, 1997.

(f) Indemnification for Stock Fixed Rate Costs: During any period of time in which interest on any Advance is accruing on the basis of the Stock Fixed Rate each Borrower shall, jointly and severally, upon the Bank's request, promptly pay to and reimburse the Bank for all costs incurred and payments made by the Bank by reason of any future assessment, reserve, deposit or similar requirement or any surcharge, tax or fee imposed upon the Bank or as a result of the Bank's compliance with any future directive or requirement of any regulatory authority pertaining or relating to funds used by the Bank in quoting and determining the Stock Fixed Rate.

(g) Conversion from Stock Fixed Rate to Stock Variable Rate: In the event that the Bank shall at any time determine that the accrual of interest on the basis of the Stock Fixed Rate (i) is infeasible because the Bank is unable to determine the Stock Fixed Rate due to the unavailability of U.S. dollar deposits, contracts or certificates of deposit in an amount approximately equal to the amount of the relevant Advance and for a period of time approximately equal to the relevant Stock Interest Period or (ii) is or has become unlawful or infeasible by reason of the Bank's compliance with any new law, rule, regulation, guideline or order, or any new interpretation of any present law, rule, regulation, guideline or order, then the Bank shall give telephonic notice thereof (confirmed in writing) to the Borrowers, in which event any Advance bearing interest at the Stock Fixed Rate, shall thereafter be deemed to be a Stock Variable Rate Advance and interest shall thereupon immediately accrue at the Stock Variable Rate.

(h) Maturity: On June 30, 1997, each Borrower hereby jointly and severally promises and agrees to pay to the Bank in full the aggregate unpaid principal amount of all Advances then outstanding, together with all accrued and unpaid interest thereon.

(i) Conversion to Term Loan: It is hereby agreed that the Borrowers may at least 2 days prior to June 30, 1997, convert the principal balance of all Advances outstanding hereunder as of June 30, 1997 to be payable on a term loan basis. The term loan shall be in the amount of such outstanding principal balance and shall be evidenced by a promissory note in the form of the Term Note. Accrued and unpaid interest hereunder shall be paid to the Bank concurrently with the Borrowers' execution of the Term Note. Interest shall accrue and principal and interest shall be paid in accordance with the terms and provisions of the Term Note, provided however that principal shall be payable over a period of up to 36 months if the term loan conversion is elected.

2.08 Late Payment: If any payment of principal (other than a principal payment due on the Expiration Date) or interest, or any portion thereof, under this Agreement is not paid within ten (10) calendar days after it is due, a late payment charge equal to five percent (5%) of such past due payment may be assessed and shall be immediately payable.

2.09 Joint Liability: Notwithstanding that Advances may be made to a particular Borrower, each Borrower is jointly and severally liable for the repayment to Bank of any and all monies, together with interest thereon, disbursed under this Agreement. By each Borrower's respective execution of this Agreement, each such Borrower, jointly and severally. unconditionally and irrevocably promises to pay and guarantees the obligation for repayment of all indebtedness incurred hereunder.

SECTION 3.

COLLATERAL

3.01 The Collateral: To secure payment and performance of all each Borrower's Obligations under this Agreement and all other liabilities, loans, guarantees, covenants and duties owed by the Borrower to the Bank, whether or not evidenced by this or by any other agreement, absolute or contingent, due or to become due, now existing or hereafter and howsoever created, each Borrower hereby grants the Bank a security interest in and to all of the following property (the "Collateral"):

(a) All goods now owned or hereafter acquired by each Borrower or in which any Borrower now has or may hereafter acquire any ownership interest, including, but not limited to, all machinery, equipment, furniture, furnishings, fixtures, tools, supplies and motor vehicles of every kind and description, and all additions, accessions, improvements, replacements and substitutions thereto and thereof.

(b) All inventory now owned or hereafter acquired by either Borrower, including, but not limited to, all raw materials, work in process, finished goods, merchandise, parts and supplies of every kind and description, including inventory temporarily out of either Borrower's custody or possession, together with all returns on accounts.

(c) All accounts, contract rights and general intangibles now owned or hereafter created or acquired by either Borrower, including, but not limited to, all receivables, goodwill, trademarks, trade styles, trade names, patents, patent applications, software, customer lists and business records.

(d) All documents, instruments and chattel paper now owned or hereafter acquired by either Borrower.

(e) All monies, deposit accounts, certificates of deposit and securities of each Borrower now or hereafter in the Bank's or its agents' possession, excluding the securities and stock of any Borrower's foreign affiliates or subsidiaries.

The Bank's security interest in the Collateral shall be a continuing lien and shall include the proceeds and products of the Collateral including, but not limited to, the proceeds of any insurance thereon.

SECTION 4.

CONDITIONS OF LENDING

4.01 Conditions Precedent to the Initial Advance: The obligation of the Bank to make the initial Advance and the flat extension of credit to or on account of any Borrower hereunder is subject to the conditions precedent that the Bank shall have received before the date of such initial Advance and such first

extension of credit all of the following, in form and substance satisfactory to the Bank:

(a) Evidence that the execution, delivery and performance by each Borrower of this Agreement and any document, instrument or agreement required hereunder have been duty authorized.

(b) Continuing guaranty in favor of the Bank executed by Deepak Chopra for $1,500,000 for the Stock Purchase Facility.

(c) Executed UCC-1 financing statement(s) describing the Collateral, together with evidence of the recordation of such statement(s).

(d) A loan fee of $10,000.

(e) The executed intercreditor agreement by and between Bank and Wells Fargo HSBC Trade Bank, National Association.

(f) Such other evidence as the Bank may request to establish the consummation of the transaction contemplated hereunder and compliance with the conditions of this Agreement.

4.02 Conditions Precedent to All Advances: The obligation of the Bank to make each Advance and each other extension of credit to or on account of either Borrower (including the initial Advance and the flat extension of credit) shall be subject to the further conditions precedent that, on the date of each Advance or each extension of credit and after the making of such Advance or extension of credit:

(a) The Bank shall have received such supplemental approvals, opinions or documents as the Bank may reasonably request

(b) The representations contained in Section 5 and in any other document, instrument or certificate delivered to the Bank hereunder are correct.

(c) No event has occurred and is continuing which constitutes, or, with the lapse of time or giving of notice or both, would constitute an Event of Default.

(d) The security interest in the Collateral has been duly authorized, created and perfected and is in full force and effect.

Each Borrower's acceptance of the proceeds of any Advance or the Borrower's execution of any document or instrument evidencing or creating any Obligation hereunder shall be deemed to constitute such Borrower's representation and warranty that all of the above statements are true and correct.

SECTION 5.

REPRESENTATIONS AND WARRANTIES

Each Borrower hereby makes the following representations and warranties to the Bank, which representations and warranties are continuing:

5.01 Status: Each Borrower is a corporation, duly organized and validly existing under the laws

of the State of California and is properly licensed and is qualified to do business and in good standing in, and, where necessary to maintain each Borrower's rights and privileges, has complied with the fictitious name statute of every jurisdiction in which the Borrower is doing business.

5.02 Authority: The execution, delivery and performance by each Borrower of this Agreement and any instrument, document or agreement required hereunder have been duly authorized and do not and will not: (i) violate any provision of any law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having application to either Borrower; (ii) result in a breach of or constitute a default under any material indenture or loan or credit agreement or other material agreement, lease or instrument to which either Borrower is a party or by which it or its properties may be bound or affected; or (iii) require any consent or approval of its stockholders or violate any provision of its articles of incorporation or by-laws.

5.03 Legal Effect: This Agreement constitutes, and any instrument, document or agreement required hereunder when delivered hereunder will constitute, legal, valid and binding obligations of each Borrower enforceable against such Borrower in accordance. with their respective terms.

5.04 Fictitious Trade Styles: There are no fictitious trade styles used by any Borrower in connection with its business operations. Each Borrower shall notify the Bank not less than 30 days prior to effecting any change in the matters described herein or prior to using any other fictitious trade style at any future date, indicating the trade style and state(s) of its use.

5.05 Financial Statements: All financial statements, information and other data which may have been or which may hereafter be submitted by the Borrowers to the Bank are true, accurate and correct and have been or will be prepared in accordance with generally accepted accounting principles consistently applied and accurately represent the financial condition or, as applicable, the other information disclosed therein. Since the most recent submission of such financial information or data to the Bank each Borrower represents and warrants that no material adverse change in such Borrower's financial condition or operations has occurred which has not been fully disclosed to the Bank in writing.

5.06 Litigation: Except as have been disclosed to the Bank in writing, there are no actions, suits or proceedings pending or, to the, knowledge of each Borrower, threatened against or affecting any Borrower or any Borrower's properties before any court or administrative agency which, if determined adversely to such Borrower, would have a material adverse effect on such Borrower's financial condition or operations or on the Collateral.

5.07 Title to Assets: Each Borrower has good and marketable title to all of its assets (including, but not limited to, the Collateral) and the same are not subject to any security interest, encumbrance, lien or claim of any third person except for Permitted Liens.

5.08 ERISA. If any Borrower has a pension, profit sharing or retirement plan subject to ERISA, such plan has been and will continue to be funded in accordance with its terms and otherwise complies with and continues to comply with the requirements of ERISA.

5.09 Taxes: Each Borrower has filed all tax returns required to be filed and paid all taxes shown thereon to be due, including interest and penalties, other than such taxes which are currently payable without penalty or interest or those which are being duly contested in good faith.

5.10 Margin Stock: The proceeds of any Advance will not be used to purchase or carry margin

stock as such term is defined under Regulation U of the Board of Governors of the Federal Reserve System.

5.11 Environmental Compliance: Each Borrower has implemented and complied in all material respects with all applicable federal, state and local laws, ordinances, statutes and regulations with respect to hazardous or toxic wastes, substances or related materials, industrial hygiene or environmental conditions. There are no suits, proceedings, claims or disputes pending or, to the knowledge of any Borrower, threatened against or affecting any Borrower or its property claiming violations of any federal, state or local law, ordinance, statute or regulation relating to hazardous or toxic wastes, substances or related materials.

SECTION 6.

COVENANTS

Each Borrower covenants and agrees that, during the term of this Agreement, and so long thereafter as either Borrower is indebted to the Bank under this Agreement, the Borrower will, unless the Bank shall otherwise consent in writing:

6.01 Preservation of Existence; Compliance with Applicable Laws: Maintain and preserve its existence and all rights and privileges now enjoyed; not liquidate or dissolve, merge or consolidate with or into, or acquire any other business organization; and conduct its business and operations in accordance with all applicable laws, rules and regulations.

6.02 Maintenance of Insurance: Maintain insurance in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which each Borrower operates and maintain such other insurance and coverages as may be required by the Bank. All such insurance shall be in form and amount and with companies satisfactory to the Bank. With respect to insurance covering properties in which the Bank maintains a security interest or lien, such insurance shall name the Bank as loss payee pursuant to a loss payable endorsement satisfactory to the Bank and shall not be altered or canceled except upon 10 days' prior written notice to the Bank. Upon the Bank's request, each Borrower shall furnish the Bank with the original policy or binder of all such insurance.

6.03 Maintenance of Collateral and Other Properties: Except for Permitted Liens, keep and maintain the Collateral free and clear of all levies, liens, encumbrances and security interests (including, but, not limited to, any lien of attachment, judgment or execution) and defend the Collateral against any such levy, lien encumbrance or security interest; comply with all laws, statutes and regulations pertaining to the Collateral and its use and operation; execute, file and record such statements, notices and agreements, take such actions and obtain such certificates and other documents as necessary to perfect, evidence and continue the Bank's security interest in the Collateral and the priority thereof, maintain accurate and complete records of the Collateral which show all sales, claims and allowances; and properly care for, house, store and maintain the Collateral in good condition, free of misuse, abuse and deterioration, other than normal wear and tear. Each Borrower shall also maintain and preserve all its properties in good working order and condition in accordance with the general practice of other businesses of similar character and size, ordinary wear and tear excepted.

6.04 Payment of Obligations and Taxes: Make timely payment of all assessments and taxes and all of its liabilities and obligations including, but not limited to, trade payables, unless the same are being contested in good faith by appropriate proceedings with the appropriate court or regulatory agency. For purposes hereof, any Borrower's issuance of a check, draft or similar instrument without delivery to the intended payee shall not constitute payment.

6.05 Inspection Rights: At any reasonable time and from time to time, permit the Bank or any representative thereof to examine and make copies of the records and visit the properties of any Borrower and discuss the business and operations of such Borrower with any employee or representative thereof. If any Borrower shall maintain any records (including, but not limited to, computer generated records or computer programs for the generation of such records) in the possession of a third party, each Borrower hereby agrees to notify such third party to permit the Bank free access to such records at all reasonable times and to provide the Bank with copies of any records which it may request, all at the Borrowers' expense, the amount of which shall be payable immediately upon demand. In addition, the Bank may, at any reasonable time and from time to time, conduct inspections and audits of the Collateral and each Borrower's accounts payable, the cost and expenses of which shall be paid by the Borrowers to the Bank upon demand.

6.06 Reporting and Certification Requirements: Deliver or cause to be delivered to the Bank in form and detail satisfactory to the Bank:

(a) Not later than 120 days after the end of each Borrower's fiscal year, a copy of the annual audited consolidated financial report of the Borrowers for such year, prepared by a firm of certified public accountants acceptable to Bank.

(b) Not later than 30 days after the end of the first three fiscal quarters of each year, the Borrowers' consolidated and consolidating financial statement for such quarter.

(c) Upon the Bank's request, such other information pertaining to the Borrower, the Collateral or any guarantor hereunder as the Bank may reasonably request.

6.07 Redemption or Repurchase of Stock: Not redeem or repurchase any class of each Borrower's stock now or hereafter outstanding other than stock repurchased under the Stock Purchase Facility.

6.08 Additional Indebtedness: Except as otherwise provided herein, not, after the date hereof, create, incur or assume, directly or indirectly, any additional Indebtedness other than (i) indebtedness owed or to be owed to the Bank or (ii) indebtedness to trade creditors incurred in the ordinary course of any Borrower's business or (iii) indebtedness owed or to be owed to the Wells Fargo HSBC Trade Bank.

6.09 Loans: Not make any loans or advances or extend credit to any third person, including, but not limited to, directors, officers, partners, or employees of any Borrower, except for credit extended in the ordinary course of each Borrower's business as presently conducted and except credit extended to any Borrower's affiliated entities and subsidiaries.

6.10 Liens and Encumbrances: Not create, assume or permit to exist any security interest, encumbrance, mortgage, deed of trust, or other lien (including, but not limited to, a lien of attachment, judgment or execution) affecting any of each Borrower's properties, or execute or allow to be filed any financing statement or continuation thereof affecting any of such properties, except for Permitted Liens or as otherwise provided in this Agreement.

6.11 Transfer Assets: Not, after the date hereof, sell, contract for sale, convey, transfer, assign, lease or sublet any of its assets (including, but not limited to, the Collateral) except in the ordinary course of business as presently conducted by each Borrower and, then, only for full, fair and reasonable consideration.

6.12 Change in Nature of Business: Not make any material change in the nature of its business as existing or conducted as of the date hereof.

6.13 Financial Condition: Maintain at all times on a consolidated basis:

(a) A minimum Effective Tangible Net Worth of at least $10,000,000 through March 31, 1997 and $11,000,000 thereafter.

(b) A ratio of Debt to Effective Tangible Net Worth of not more than 3.25 to 1 through March 31, 1997 and 3.00 to 1 thereafter.

(c) A ratio of current assets to current liabilities of not less than 1.20 to 1.

(d) A ratio of the sum of cash, cash equivalents and accounts receivable to current liabilities of not less than .50 to 1 at March 31, 1997 and .60 to 1 thereafter.

6.14 Compensation of Employees: Compensate its employees for services rendered at an hourly rate at least equal to the minimum hourly rate prescribed by any applicable federal or state law or regulation.

6.15 Rentals: Not incur liability (in addition to that incurred as of the date of this Agreement) for the payment of, or pay, rentals for the renting, leasing or use of real or personal property in an amount greater than $1,100,000 in any one fiscal year.

6.16 Capital Expense: Not make any fixed capital expenditure or any commitment therefor, including, but not limited to, incurring liability for leases which would be, in accordance with generally accepted accounting principles, reported as capital leases, or purchase any real or personal property in an amount greater than $1,750,000 in any one fiscal year.

6.17 Notice: Give the Bank prompt written notice of any and all (i) Events of Default; (ii) litigation, arbitration or administrative proceedings to which either Borrower is a party and in which the claim or liability exceeds $150,000.00 or which affects the Collateral; and (iii) other matters which have resulted in, or might result in a material adverse change in the Collateral or the financial condition or business operations of any Borrower.

6.18 Environmental Compliance. Each Borrower shall:

(a) Implement and comply in all material respects with all applicable federal, state and local laws, ordinances, statutes and regulations with respect to hazardous or toxic wastes, substances or related materials, industrial hygiene or to environmental conditions.

(b) Not own, use, generate, manufacture, store, handle, treat, release or dispose of any hazardous or toxic wastes, substances or related materials except in the ordinary course of the Borrower's business.

(c) Give prompt written notice of any discovery of or suit, proceeding, claim, dispute, threat, inquiry or filing respecting hazardous or toxic wastes, substances or related materials.

(d) At all times indemnify and hold harmless Bank from and against any and all liability arising out of the use, generation, manufacture, storage, handling, treatment, disposal or presence of hazardous or toxic wastes, substances or related materials.

SECTION 7.

EVENTS OF DEFAULT

Any one or more of the following described events shall constitute an event of default (an 'Event of Default') under this Agreement:

7.01 Non-Payment: Any Borrower shall fail to pay any Obligations within 2 days of when due.

7.02 Performance Under This Agreement: Any Borrower shall fail in any material respect to perform or observe any term, covenant or agreement contained in this Agreement or in any document, instrument or agreement relating to this Agreement and any such failure shall continue unremedied for more than 30 days after the occurrence thereof.

7.03 Other Agreements: If there is a default under any agreement to which any Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in excess of $250,000.

7.04 Representations and Warranties; Financial Statements: Any representation or warranty made by each Borrower under or in connection with this Agreement or any financial statement given by such Borrower or any guarantor shall prove to have been incorrect in any material respect when made or given or when deemed to have been made or given.

7.05 Insolvency. Any Borrower shall: (i) become insolvent or be unable to pay its debts as they mature; (ii) make an assignment for the benefit of creditors or to an agent authorized to liquidate any substantial amount of its properties and assets; (iii) file a voluntary petition in bankruptcy or seeking reorganization or to effect a plan or other arrangement with creditors; (iv) file an answer admitting the material allegations of an involuntary petition relating to bankruptcy or reorganization or join in any such petition; (v) become or be adjudicated a bankrupt; (vi) apply for or consent to the appointment of, or consent that an order be made, appointing any receiver, custodian or trustee, for itself or any of its properties, assets or businesses; or (vii) any receiver, custodian or trustee shall have been appointed for all or substantially all of its properties, assets or businesses and shall not be discharged within 60 days after the date of such appointment.

7.06 Execution: Any writ of execution or attachment or any judgment lien shall be issued against any property of any Borrower and shall not be discharged or bonded against or released within 30 days after the issuance or attachment of such writ or lien in excess of $100,000.

7.07 Revocation or Limitation of Guaranty. Any guaranty shall be revoked or limited or its enforceability or validity shall be contested by any guarantor, by operation of law, legal proceeding or otherwise or any guarantor who is a natural person shall die.

7.08 Suspension: Any Borrower shall voluntarily suspend the transaction of business or allow to be suspended terminated, revoked or expired any permit, license or approval of any governmental body necessary to conduct such Borrowers business as now conducted.

7.09 Change in Ownership: There shall occur a sale, transfer, disposition or encumbrance (whether voluntary or involuntary), or an agreement shall be entered into to do so, with respect to more than 10% of the issued and outstanding capital stock of any Borrower owned by Deepak Chopra.

SECTION 8.

REMEDIES ON DEFAULT

Upon the occurrence of any Event of Default, the Bank may, at its sole and absolute election, without demand and only upon such notice as may be required by law:

8.01 Acceleration: Declare any or all of the Borrowers' indebtedness owing to the Bank, whether under this Agreement or any other document, instrument or agreement, immediately due and payable, whether or not otherwise due and payable.

8.02 Cease Extending Credit: Cease making Advances or otherwise extending credit to or for the account of each Borrower under this Agreement or under any other agreement now existing or hereafter entered into between any Borrower and the Banks

8.03 Termination: Terminate this Agreement as to any future obligation of the Bank without affecting the Borrowers' obligations to the Bank or the Bank's rights and remedies under this Agreement or under any other document instrument or agreement.

8.04 Notification of Account Debtors:

(a) Notify any Account Debtor, any buyers or transferee of the Collateral or any other persons of the Bank's interest in the Collateral and the proceeds thereof.

(b) Sign any Borrower's name (which authority each Borrower hereby irrevocably and unconditionally grants to the Bank) on any invoice or bill of lading relating to accounts or other drafts against the Account Debtors, not post office authorities to change the address for delivery of mail addressed to such Borrower to such address as the Bank may designate and take possession of and open mail addressed to any Borrower and remove therefrom, proceeds of and payments on the Collateral, and demand, receive and endorse payment and give receipts, releases and satisfactions for and sue for all money payable to any Borrower.

(c) Require each Borrower to indicate on the face of all invoices (or such other documentation as may be specified by the Bank relating to the services giving rise to the Account) that the Account has been assigned to the Bank and that all payments are to be made directly to the Bank at such address as the Bank may designate.

8.05 Protection of Security Interest: Make such payments and do such acts as the Bank, in its sole judgment, considers necessary and reasonable to protect its security interest or Hen in the Collateral. Each Borrower hereby irrevocably authorizes the Bank to pay, purchase, contest or compromise any encumbrance, lien or claim which the Bank, in its sole judgment, deems to be prior or superior to its security interest. Further, each Borrower hereby agrees to pay to the Bank, upon demand therefor, all expenses and expenditures (including attorneys' fees) incurred in connection with the foregoing.

8.06 Foreclosure: Enforce any security interest or lien given or provided for under this Agreement or under any security agreement, mortgage, deed of trust or other document, in such manner and such order, as to all or any part of the properties subject to such security interest or lien, as the Bank, in its sole judgment, deems to be necessary or appropriate and each Borrower hereby waives any and all rights, obligations or defenses now or hereafter established by law relating to the foregoing. In the enforcement of

its security interest or lien, the Bank is authorized to enter upon the premises where any Collateral is located and take possession of the Collateral or any part thereof, together with each Borrower's records pertaining thereto, or the Bank may require each Borrower to assemble the Collateral and records pertaining thereto and make such Collateral and records available to the Bank at a place designated by the Bank. The Bank may sell the Collateral or any portions thereof, together with all additions, accessions and accessories thereto, giving only such notices and following only such procedures as are required by law, at either a public or private sale, or both, with or without having the Collateral present at the time of the sale, which sale shall be on such terms and conditions and conducted in such manner as the Bank determines in its sole judgment to be commercially reasonable. Any deficiency which exists after the disposition or liquidation of the Collateral shall be a continuing liability of each Borrowers to the Bank and shall be immediately paid by each Borrower, jointly and severally, to the Bank.

8.07 Letters of Credit and Acceptances: Require the Borrowers, jointly and severally, to pay immediately to the Bank, for application against drawings under any outstanding Letters of Credit and Acceptances, the outstanding principal amount of any such Letters of Credit which have not expired and the principal amount of any Acceptances which have not matured. Any portion of the amount so paid to the Bank which is not applied to satisfy draws under any such Letters of Credit or repayments on any such matured Acceptances or any other obligations of the Borrower to the Bank shall be repaid to the Borrowers without interest.

8.08 Foreign Exchange Contracts: Require the Borrowers, jointly and severally, to pay immediately to the Bank, for application against the future settlement price under any outstanding Foreign Exchange Contracts, the outstanding face amount of any such Foreign Exchange Contracts which have not matured or settled and Borrower hereby grants to Bank a security interest in and to such funds. Any portion of the amount so paid to the Bank which is not subsequently applied to satisfy repayment on any such matured Foreign Exchange Contracts or any other obligations of the Borrower to the Bank shall be repaid to the Borrowers without interest.

8.09 Non-Exclusivity of Remedies: Exercise one or more of the Bank's rights set forth herein or seek such other rights or pursue such other remedies as may be provided by law, in equity or in any other agreement now existing or hereafter entered into between each Borrower and the Bank, or otherwise.

8.10 Application of Proceeds: All amounts received by the Bank as proceeds from the disposition or liquidation of the Collateral shall be applied to the Borrowers' indebtedness to the Bank as follows: first, to the costs and expenses of collection, enforcement, protection and preservation of the Bank's lien in the Collateral, including court costs and reasonable attorneys' fees, whether or not suit is commenced by the Bank; next, to those costs and expenses incurred by the Bank in protecting, preserving, enforcing, collecting, liquidating, selling or disposing of the Collateral; next, to the payment of accrued and unpaid interest on all of the Obligations; next, to the payment of the outstanding principal balance of the Obligations; and last, to the payment of any other indebtedness owed by any Borrower to the Bank. Any excess Collateral or excess proceeds existing after the disposition or liquidation of the Collateral will be returned or paid by the Bank to the Borrowers.

SECTION 9.

MISCELLANEOUS

9.01 Amounts Payable on Demand. If any Borrower shall fail to pay on demand any amount so payable under this Agreement, the Bank may, at its option and without any obligation to do so and without

waiving any default occasioned by the Borrower having so failed to pay such amount, create an Advance under the Line of Credit in an amount equal to the amount so payable, which Advance shall thereafter bear interest as provided under the Line of Credit.

9.02 Default Interest Rate: If an Event of Default, or an event which, with notice or passage of time could become an Event of Default, has occurred and is continuing, each Borrower, jointly and severally, shall pay to the Bank interest on any Indebtedness or amount payable under this Agreement at a rate which is 3% in excess of the rate or rates then in effect under this Agreement.

9.03 Disposal of Invoices: All documents, schedules, invoices or other papers received by the Bank from the Borrowers may be destroyed or disposed of 6 months after receipt by the Bank, unless any Borrower requests in writing the return thereof, which shall be done at the Borrowers' expense.

9.04 Waiver of Jury Trial. EACH BORROWER AND THE BANK EACH WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS AGREEMENT, THE OTHER LOAN DOCUMENTS, OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY, IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR PARTIES, WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. EACH BORROWER AND THE BANK EACH AGREE THAT ANY SUCH CLAIM OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

9.05 Reliance: Each warranty, representation, covenant, obligation and agreement contained in this Agreement shall be conclusively presumed to have been relied upon by the Bank regardless of any investigation made or information possessed by the Bank and shall be cumulative and in addition to any other warranties, representations, covenants and agreements which each Borrower now or hereafter shall give, or cause to be given, to the Bank.

9.06 Attorneys' Fees: Each Borrower, jointly and severally, shall pay to the Bank all costs and expenses, including but not limited to reasonable attorneys fees, incurred by Bank in connection with the administration, enforcement or any refinancing or restructuring in the nature of a "work-out", of this Agreement or any document, instrument or agreement executed with respect to, evidencing or securing the indebtedness hereunder.

9.07 Notices: All notices, payments, requests, information and demands which either party hereto may desire, or may be required to give or make to the other party hereto, shall be given or made to such party by hand delivery or through deposit in the United States mail, postage prepaid, or by Western Union telegram, addressed as set forth below or to such other address as may be specified from time to time in writing by either party to the other.

To the Borrowers:	To the Bank:
OPTO SENSORS, INC.	SANWA BANK CALIFORNIA
/s/ Illegible	/s/JANICE UPTON
- ----------	----------
	Janice Upton, Vice President
- ----------	
UDT SENSORS, INC.	
/s/ Illegible	
- ----------	
- ----------	
RAPISCAN SECURITY PRODUCTS (U.S.A.), INC.	
/s/ Illegible	
- ----------	
- ----------	
FERSON OPTICS, INC.	
/s/ Illegible	
- ----------	

9.08 Waiver: Neither the failure nor delay by the Bank in exercising any right hereunder or under any document instrument or agreement mentioned herein shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder or under any other document, instrument or agreement mentioned herein preclude other or further exercise thereof or the exercise of any other right; nor shall any waiver of any right or default hereunder, or under any other document, instrument or agreement mentioned herein, constitute a waiver of any other right or default or constitute a waiver of any other default of the same or any other term or provision.

9.09 Conflicting Provisions: To the extent the provisions contained in this Agreement are inconsistent with those contained in any other document, instrument or agreement executed pursuant hereto, the terms and provisions contained herein shall control. Otherwise, such provisions shall be considered cumulative.

9.10 Binding Effect; Assignment: This Agreement shall be binding upon and inure to the benefit of each Borrower and the Bank and their respective successors and assigns, except that no Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Bank. The Bank may sell. assign or grant participation in all or any portion of its rights and benefits hereunder. Each Borrower agrees that, in connection with any such sale, grant or assignment, the Bank may deliver to the prospective buyer, participant or assignee financial statements and other relevant information relating to any Borrower and any guarantor.

9.11 Jurisdiction: This Agreement, any notes issued hereunder, the rights of the parties hereunder to and concerning the Collateral, and any documents, instruments or agreements mentioned or referred to herein shall be governed by and construed according to the laws of the State of California, to the jurisdiction of whose courts the parties hereby submit.

9.12 No Guaranty or Surety. If any Borrower hereunder is deemed to be a surety or guarantor due to its joint and several liability hereunder such Borrower hereby unconditionally and irrevocably acknowledges and agrees to the matters set forth below:

(a) Each Borrower waives any defense based upon any Borrower's loss of a right against any other Borrower(s) arising from the Bank's election of a remedy on any indebtedness under bankruptcy or other debtor relief laws or under any other laws, including, but not limited to, those purporting to reduce the Bank's right against any Borrower in proportion to the principal obligation of any indebtedness (as presently contained in Section 2809 of the California Civil Code and as it may be amended or superseded in the future).

(b) Each Borrower waives the benefit of the statute of limitations affecting such Borrower's liability hereunder or the enforcement hereof.

(c) Each Borrower waives all right to require the Bank to: (i) proceed against any other Borrower(s), any endorser, cosigner, other guarantor or other person liable on any indebtedness; (ii) join any endorser, cosigner, other guarantor or other person liable on any indebtedness in any action or actions that may be brought and prosecuted by the Bank solely and separately against any Borrower(s) on any indebtedness; (iii) proceed against any item or items of collateral securing any indebtedness or any guaranty thereof, or (iv) pursue or refrain from pursuing any other remedy whatsoever in the Bank's power.

(d) Each Borrower waives any defense arising by reason of any disability or other defense of any other Borrower(s), successors or any endorser, cosigner, other guarantor or other person liable on any indebtedness. Until all indebtedness has been paid in full, each Borrower shall not have any right of subrogation and each Borrower waives any benefit of and right to participate in any collateral now or hereafter held by the Bank. Each Borrower waives all presentments, demands for performance, notices of nonperformance, protests, notices of protest, notices of dishonor, notices of sale of any collateral securing any indebtedness or any guaranty thereof, and notice of the existence, creation or incurring of new or additional indebtedness.

9.13 Headings: The headings herein set forth are solely for the purpose of identification and have no legal significance.

9.14 Entire Agreement: This Agreement and all documents, instruments and agreements mentioned herein constitute the entire and complete understanding of the parties with respect to the

transactions contemplated hereunder. All previous conversations, memoranda and writings between the parties pertaining to the transactions contemplated hereunder not incorporated or referenced in this Agreement or in such documents, instruments and agreements are superseded hereby.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first hereinabove written.

BANK:

SANWA BANK CALIFORNIA

By: /s/JANICE UPTON

Janice Upton, Vice President

BORROWER:

OPTO SENSORS, INC.

By: /s/ AJAY MEHRA

Ajay Mehra, Chief Financial Officer

UDT SENSORS, INC.

By: /s/ AJAY MEHRA

Ajay Mehra, Chief Financial Officer

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

By: /s/ AJAY MEHRA

Ajay Mehra, Chief Financial Officer

FERSON OPTICS, INC.

By: /s/ AJAY MEHRA

Ajay Mehra, Chief Financial Officer

EXHIBIT 10.16

CREDIT AGREEMENT

by and between

OPTO SENSORS, INC., a California corporation
UDT SENSORS, INC., a California corporation
RAPISCAN SECURITY PRODUCTS (U.S.A.), INC., a California corporation
FERSON OPTICS, INC., a California corporation

and

WELLS FARGO HSBC TRADE BANK, N.A.

Dated as of

November 1, 1996

Exhibit A - Revolving Line of Credit Note
Exhibit B - Borrowing Base Certificate
Exhibit C - Country Limitation Schedule of Ex-Im Bank
Exhibit D - Ex-Im Bank Borrower Agreement
Exhibit E - Facility Supplements
Exhibit F - Unsecured Guarantees

Collateral Documents:

Intercreditor Agreement with Wells Fargo Bank, National Association
("Intercreditor Agreement")
Security Agreement in Rights to Payment and Inventory ("Security Agreement")
Subordination Agreement with Scope Industries ("Subordination Agreement")
UCC-I Financing Statement(s)

WELLS FARGO HSBC TRADE BANK

OPTO SENSORS, INC., a California corporation, UDT SENSORS, INC., a California corporation, RAPISCAN SECURITY PRODUCTS (U.S.A.), INC., a California corporation and FERSON OPTICS, INC., a California corporation (each individually, a "Borrower" and together, the "Borrowers"), and WELLS FARGO HSBC TRADE BANK, N.A. ("Trade Bank"), have entered into this CREDIT AGREEMENT as of November 1, 1996 ("Effective Date").

I
CREDIT FACILITIES

1.1 The Facilities. Subject to the terms and conditions of this Agreement, Trade Bank will make available to Borrower each of those credit facilities ("Facilities") for which a Facility Supplement ("Supplement") is attached as Exhibit E hereto. Additional terms for each individual Facility (and each subfacility thereof ("Subfacility")) are set forth in the Supplement for that Facility. Each Facility will be available from the Closing Date until the Facility Termination Date for that Facility. Collateral and credit support required for each Facility are also set forth in the Supplement for each Facility. Definitions for those capitalized terms not otherwise defined are contained in Article 8 below.

1.2 Credit Extension Limits. The aggregate outstanding amount of all Credit Extensions may at no time exceed the lesser of (a) Two Million Dollars ($2,000,000), or (b) the Available Export Order Credit Limit as then in effect. In addition to the foregoing, the aggregate outstanding amount of all Revolving Credit Loans and unreimbursed drawings under Standby Credits plus twenty-five percent (25%) of the aggregate undrawn face amount of all unexpired Standby Credits may at no time exceed the Borrowing Base as then in effect. The aggregate outstanding amount of all Credit Extensions outstanding at any time under any Facility may not exceed that amount specified as the "Credit Limit" in the Supplement for that Facility, and the aggregate outstanding amount of all Credit Extensions outstanding at any time under each Subfacility (or any subcategory thereof) may not exceed that amount specified as the "Credit Sublimit" in the Supplement for the relevant Facility. Except as otherwise specifically set forth herein, an amount equal to one hundred percent (100%) of the undrawn face amount of each Standby Credit shall be used in calculating the outstanding amount of Credit Extensions under this Agreement.

1.3 Repayment; Interest and Fees. Each funded Credit Extension shall be repaid by Borrower, and shall bear interest from the date of disbursement at those per annum rates and such interest shall be paid, at the times specified in the applicable Supplement, Note or Facility Document. With respect to each Facility, Borrower agrees to pay to Trade Bank the fees specified in the related Supplement as well as those fees specified in the relevant Facility Document(s). Interest and fees will be calculated on the basis of a 360 day year, actual days elapsed. Any overdue payments of principal (and interest to the extent permitted by law) shall bear interest at a per annum floating rate equal to the Prime Rate plus 3%.

1.4 Prepayments. Credit Extensions under any Facility may only be prepaid in accordance with the terms of the related Supplement. At the time of any prepayment (including, but not limited to, any prepayment which is a result of the occurrence of an Event of Default and an acceleration of the Obligations) Borrower will pay to Trade Bank all interest accrued on the amount so prepaid to the date of such prepayment and all costs, expenses and fees specified in the Loan Documents.

II
REPRESENTATIONS AND WARRANTIES

Borrowers represent and warrant to Trade Bank that the following representations and warranties are true and correct:

2.1 Legal Status. Borrowers are duly organized and existing and in good standing under the laws of the state in which they are incorporated, and are qualified or licensed to do business in all jurisdictions in which such qualification or licensing is required and in which the failure to so qualify or to be so licensed could have a material adverse affect on Borrowers.

2.2 Authorization and Validity. The execution, delivery and performance of this Agreement, and all other Loan Documents to which Borrowers are a party, have been duly and validly authorized, executed and delivered by Borrowers and constitute legal, valid and binding agreements of Borrowers, enforceable against Borrowers in accordance with their respective terms.

2.3 Financial Condition and Statements. All financial statements of Borrowers delivered to Trade Bank have been prepared in conformity with GAAP, and completely and accurately reflect the financial condition of Borrowers (and any consolidated Subsidiaries) at the times and for the periods stated in such financial statements. Neither Borrowers nor any Subsidiary has any material contingent liability not reflected in the aforesaid financial statement. Since the date of the financial statements delivered to Trade Bank for the last fiscal periods of Borrowers to end before the Effective Date, there have been no material adverse changes in the financial condition, business or prospects of Borrowers. Borrowers are solvent.

2.4 Litigation. Except as disclosed in writing to Trade Bank prior to the Effective Date, there is no action, claim, suit, litigation, proceeding or investigation pending or (to best of Borrowers' knowledge) threatened by or against or affecting Borrowers or any Subsidiary in any court or before any governmental authority, administrator or agency which may result in (a) any material adverse change in the financial condition or business of Borrowers, or (b) any material impairment of the ability of Borrowers to carry on their business in substantially the same manner as it is now being conducted.

2.5 No Defaults. No Event of Default, and no event which with the giving of notice or the passage of time or both would constitute an Event of Default, has occurred and is continuing.

2.6 Ex-Im Bank Guarantee. The Obligations are, and shall continue to be until all the Obligations have been paid in full, guaranteed as to 90% of the amount thereof by Ex-Im Bank. Every statement, representation and warranty of Borrowers in (a) the Borrowers Agreement between Ex-Im Bank and Borrowers ("Borrowers Agreement") and (b) the U.S. Small Business Administration/Ex-Im Bank Joint Application for Working Capital Guarantee ("Joint Application") and (c) each other document pertaining to the Facility shall be true and correct as of the date hereof.

III
CONDITIONS TO EXTENDING FACILITIES

3.1 Conditions to Initial Credit Extension. The obligation of Trade Bank to make the first Credit Extension is subject to Trade Bank having received, in form and substance satisfactory to Trade Bank, the following documents duly executed, dated the Closing Date and in full force and effect:

(a) a corporate borrowing resolution and incumbency certificate;

(b) the Facility Documents for each Facility, including, but not limited to, note(s) ("Notes") for any Revolving Credit Facility, and Trade Bank's standard Continuing Standby Letter of Credit Agreement;

(c) each Collateral Document;

(d) an audit inspection report of Borrowers' books, records and property by Wells Fargo or another auditor or inspector acceptable to Trade Bank reflecting values and property conditions satisfactory to Trade Bank, the cost of which shall not exceed $2,000 for the account of Borrowers;

(e) the Ex-Im Bank Borrower Agreement required by Ex-Im Bank together with the U.S. Small Business Administration/Export-Import Bank of the United States "Joint Application For Working Capital Guarantee" and the latest "Country Limitation Schedule of Ex-Im Bank";

(f) executed copies of financing statements (UCC-1) for filing in California and all other jurisdictions in which the Trade Bank believes desirable to perfect its security interest in the Collateral;

(g) financial statements of Borrowers as of, and for the fiscal quarter ending September 28, 1996;

(h) such other documents as Trade Bank may reasonably require.

3.2 Conditions to Making Each Credit Extension. The obligation of Trade Bank to make each Credit Extension is subject to the fulfillment to Trade Bank's satisfaction of the following conditions:

(a) Representations and Warranties. The representations and warranties contained in this Agreement, the Facility Documents and the Collateral Documents will be true and correct on and as of the date of the Credit Extension with the same effect as though such representations and warranties had been made on and as of such date; and

(b) Documentation. Trade Bank must have received, in form and substance satisfactory to Trade Bank:

(1) a Borrowing Base Certificate dated within five Business Days of the date of the Credit Extension, demonstrating compliance with the requirements for such Credit Extension. Each Certificate will include:

(i) an inventory collateral report showing the types, locations and dollar values of all the inventory collateral;

(ii) an aged listing of accounts receivables;

(iii) an aged listing of accounts payable;

(2) a copy of each Export Order against which Borrowers are requesting a Credit Extension; and

(3) if the Credit Extension is the issuance of a Standby Letter of Credit, Trade Bank's standard "Application for Standby Letter of Credit" or standard "Application and Agreement for Standby Letter of Credit".

IV
AFFIRMATIVE COVENANTS

Borrowers covenant that so long as Trade Bank remains committed to make Credit Extensions to Borrowers, and until payment of all Obligations and Credit Extensions, Borrowers will comply with each of the following covenants:

4.1 Punctual Payments. Punctually pay all principal, interest, fees and other Obligations due under this Agreement or under any other Loan Document at the time and place and in the manner specified herein or therein.

4.2 Notification to Trade Bank. Promptly, but in no event more than five (5) business days after the occurrence of each such event, provide written notice in reasonable detail of each of the following:

(a) Occurrence of a Default. The occurrence of any Event of Default or any event which with the giving of notice or the passage of time or both would constitute an Event of Default;

(b) Borrowers' Trade Names; Place of Business. Any change of Borrowers' (or any Subsidiary's) name, trade name or place of business, or chief executive officer;

(c) Litigation. Any action, claim, proceeding, litigation or investigation threatened or instituted by or against or affecting Borrowers (or any Subsidiary) in any court or before any government authority, administrator or agency which may materially and adversely affect Borrowers' (or any Subsidiary's) financial condition or business or Borrowers' ability to carry on their business in substantially the same manner as it is now being conducted;

(d) Uninsured or Partially Uninsured Loss. Any uninsured or partially uninsured loss through liability or property damage or through fire, theft or any other cause affecting Borrowers' (or any Subsidiary's) property in excess of an aggregate amount of Fifty Thousand Dollars ($50,000.00) for all Borrowers and Subsidiaries combined.

4.3 Books and Records. Maintain at Borrowers' address books and records in accordance with GAAP, and permit any representative of Trade Bank, at any time during customary business hours, to inspect, audit and examine such books and records, to make copies of them, and to inspect the properties of Borrowers. Borrowers shall further permit Bank or an entity approved by Bank to conduct, at least once each calendar year a filed audit for the purpose of inspecting and valuing the Collateral.

4.4 Tax Returns and Payments. Timely file all tax returns and reports required by foreign, federal, state and local law, and timely pay all foreign, federal, state and local taxes, assessments, deposits and contributions owed by Borrowers. Borrowers may, however, defer payment of any contested taxes, provided that Borrowers (i) in good faith contests Borrowers' obligation to pay the taxes by appropriate proceedings promptly instituted and diligently conducted, (ii) notifies Trade Bank in writing of the commencement of, and any material development in, the proceedings, (iii) posts bonds or takes any other steps required to keep the contested taxes from becoming a lien upon any of the Collateral, and (iv) makes

provision, to Trade Bank's satisfaction, for eventual payment of such taxes in the event Borrowers are obligated to make such payment.

4.5 Compliance with Laws. Comply in all material respects with the provisions of all foreign, federal, state and local laws and regulations relating to Borrowers, including, but not limited to, those relating to Borrowers' ownership of real or personal property, the conduct and licensing of Borrowers' business, and health and environmental matters.

4.6 Insurance. Maintain and keep in force insurance of the types and in amounts customarily carried in lines of business similar to that of Borrowers, including, but not limited to, fire, extended coverage, public liability, flood, property damage and workers' compensation, with all such insurance to be in amounts satisfactory to Trade Bank and to be carried with companies approved by Trade Bank before such companies are retained, and deliver to Trade Bank from time to time at Trade Bank's request schedules setting forth all insurance then in effect. All insurance policies shall name Trade Bank as an additional loss payee, and shall contain a lenders loss payee endorsement in form reasonably acceptable to Trade Bank. If Borrowers fails to provide or pay for any insurance, Trade Bank may, but is not obligated to, obtain the insurance at Borrowers' expense.

4.7 Further Assurances. At Trade Bank's request and in form and substance satisfactory to Trade Bank, execute all documents and take all such actions at Borrowers' expense as Trade Bank may deem reason ably necessary or useful to perfect and maintain Trade Bank's perfected security interest in the Collateral and in order to fully consummate all of the transactions contemplated by the Loan Documents.

4.8 Reports. Furnish the following information or deliver the following reports to Trade Bank at the times indicated below:

(a) Annual Financial Statements. Not later than ninety (90) calendar days after and as of the end of each of Borrowers' fiscal years, (i) an annual audited consolidated and consolidating financial statement of Borrowers and Affiliates, prepared by a certified public accountant acceptable to Trade Bank to include a balance sheet, an income statement and a cash flow statement and applicable schedules and footnotes, with a copy of the letter from such certified public accountant to the management of Opto Sensors, Inc. with regard to such financial statements, and (ii) a consolidated and consolidating projected financial plan, including a balance sheet and income statement.

(b) Quarterly Financial Statements. Not later than forty-five (45) calendar days after and as of the end of each of Borrowers' fiscal quarters, a consolidated and consolidating financial statement of Borrowers and Affiliates, prepared by Borrowers, to include a balance sheet, an income statement and a cash flow statement and all applicable schedules and footnotes.

(c) Certificate of Accuracy and No Event of Default. At the time each financial statement of Borrowers and Affiliates required above is delivered to Trade Bank, a certificate of the president or chief financial officer of Opto Sensors, Inc. that said financial statements are accurate and that there exists no Event of Default under this Agreement nor any condition, act or event which with the giving of notice or the passage of time or both would constitute an Event of Default, together with a reconciliation of all intercompany loans.

(d) Federal Income Tax Returns. Not later than 10 calendar days after filing, but in no event later than 120 calendar days after the end of each of Borrowers' tax years, a copy of each Borrowers' filed federal income tax returns for such year.

(e) Borrowing Base Certificate. Not later than twenty-five (25) calendar days after and as of the end of each month:

(1) a Borrowing Base Certificate;

(2) an inventory report showing the types, locations and dollar values of all the inventory collateral;

(3) an aged history of accounts receivable.

4.9 Financial Covenants. Maintain the following (if Borrowers have any Affiliates which must be consolidated under GAAP, the following applies to Borrowers and the consolidated Affiliates):

(a) Current Ratio. Not at any time less than 1.15 to 1.0 ("Current Ratio" means total current assets divided by total current liabilities, and "current assets" and "current liabilities" have the meanings given to them in accordance with GAAP; provided, however, that "current liabilities" will include indebtedness which is subordinated to the Obligations in a manner satisfactory to Trade Bank.)

(b) Total Liabilities divided by Tangible Net Worth. Not at any time greater than 2.5 to 1.0 ("Tangible Net Worth" means the aggregate of total stockholders' equity including indebtedness which is subordinated to the Obligations pursuant to documentation satisfactory to Trade Bank and excluding any intangible assets, and "Total Liabilities" means the aggregate of current liabilities and non-current liabilities, less indebtedness which is subordinated to the Obligations pursuant to documentation satisfactory to Trade Bank.)

(c) EBITDA Coverage Ratio. Not at any time less than 2.0 to 1.0, calculated at each fiscal quarter end on a rolling four fiscal quarter basis for the immediately preceding four fiscal quarters. "EBITDA Coverage Ratio" means EBITDA divided by the aggregate of total interest expense plus the current maturity of long-term debt and the current maturity of subordinated debt, and "EBITDA" means net profit before tax plus the non-cash portion of the $1,500,000 obligation of UDT Sensors, Inc. to the United States of America, plus interest expense (net of capitalized interest expense), depreciation expense and amortization expense.

(d) Maximum Funded Debt to EBITDA Ratio. Not at any time greater than 2.5 to 1.0, calculated at each fiscal quarter end. "Funded Debt" means all obligations related to borrowed money (exclusive of subordinated debt), letter of credit reimbursement obligations and contingent liabilities, and with "EBITDA" having the meaning given above and calculated on a rolling four-quarter basis as set forth above.

(e) Net Income After Taxes. Profitable on an annual basis determined as of each fiscal year end.

(f) Pre-Tax Profit. Not less than $1,500,000 on an annual basis, determined as of each fiscal year end, and $1 on a quarterly basis, determined as of each fiscal quarter end.

4.10 Judgments and Liens. Satisfy all material judgments and liens.

V
NEGATIVE COVENANTS

Each of the Borrowers covenants and agrees that so long as Trade Bank remains committed to make any Credit Extensions to Borrowers and until all Obligations have been paid, such Borrower will not, without the prior written consent of Trade Bank:

5.1 Merge or Consolidation, Transfer of Assets. Merge into or consolidate with, or permit any Subsidiary to merge into or consolidate with, any other entity except for Permitted Mergers (as defined below); make, or permit any Subsidiary to make, any substantial change in the nature of its business as conducted as of the date hereof, acquire, or permit any Subsidiary to acquire, all or substantially all of the assets of any other entity for a purchase price in excess of $150,000 in the aggregate for all such purchases combined; sell, lease, transfer, or otherwise dispose of, or permit any Subsidiary to sell, lease, transfer, or otherwise dispose of, all or a substantial or material portion of its assets except in the ordinary course of business ness and except for a Permitted Merger. As used herein, a "Permitted Merger" shall mean a merger of any of the Borrowers or Subsidiaries with any of the other Borrowers or Subsidiaries so long as all of the following conditions are satisfied: (a) in the case of a merger of a Subsidiary with a Borrower, the Borrower is the survivor of the merger, (b) the merger is consummated in compliance with applicable law and to the extent the consent of any governmental agency would be required in connection therewith, such consent is obtained, (c) Borrowers give Trade Bank at least ten (10) business days prior notice of Borrowers' intention to so merge, (d) Borrowers furnish Trade Bank with copies of such documents related to the merger as Trade Bank may request, and (e) Borrowers reimburse Trade Bank upon demand for all costs and expenses, including reasonable attorneys' fees (to include without limitation the allocated cost of Trade Bank's in-house counsel) incurred by Trade Bank in connection with a reasonable review by Trade Bank of the merger and the negotiation and preparation of any documents which may reasonably be required by Trade Bank in connection therewith.

5.2 Liens. Except for Permitted Liens, mortgage, pledge, grant or permit to exist, a security interest in, or lien upon, all or any portion of its assets now owned or hereafter acquired.

5.3 Use of Proceeds. Use the proceeds of any Credit Extension except for the express purpose(s) permitted in the particular Facility Supplement under which the subject Credit Extension is made.

5.4 Dividends, Distributions of Capital and Stock Redemptions. Declare or pay, or permit any Subsidiary to declare or pay, any dividend or distribution either in cash, stock or any other property on its stock now or hereafter outstanding; or redeem, retire, repurchase or otherwise acquire any shares of any class of its stock now or hereafter outstanding, or permit any Subsidiary to do so; provided, however, that (a) Rapiscan UK may pay cash dividends to Rapiscan Security Products (U.S.A.), Inc. ("Rapiscan"), (b) each Borrower (other than Opto-Sensors, Inc.) and each Subsidiary (other than Rapiscan UK) may pay cash dividends to its shareholders so long as cash dividends paid to minority shareholders do not exceed $50,000 in the aggregate, (c) notwithstanding anything herein to the contrary, neither Opto-Sensors, Inc. nor any successor thereto, whether by merger or otherwise, shall pay any dividends to its shareholders, (d) Rapiscan may redeem its stock owned by its employees not to exceed $40,000 per year, (e) Opto-Sensors, Inc. may redeem its stock owned by its employees, other than Deepak Chopra and his immediate family members, not to exceed $ 100,000 per year, and (f) Ferson Optics, Inc. may redeem its stock owned by its employees not to exceed $40,000 per year.

5.5 Loans to Stockholders. Make, or permit any Subsidiary to make, any loans to any stock holder or any Affiliate of any Borrowers. As used in this Section 5.5, "Affiliate" means any person or entity

which directly or indirectly controls, is controlled by, or is under common control with one or more Borrowers.

5.6 Capital Expenditures. Make, or permit any Subsidiary to make, without the prior written con sent of Trade Bank, any additional investments in fixed assets in any fiscal year in an aggregate amount in excess of $1,750,000 for all Borrowers and Subsidiaries combined; provided, however, that for the purpose of calculating compliance with the foregoing limitation on additional investments in fixed assets, there shall be excluded investments in fixed assets that are acquired in replacement of fixed assets that had been lost or destroyed and that are financed by insurance proceeds paid under insurance policies covering such loss or destruction.

5.7 Guarantees. Guarantee or become liable, or permit any Subsidiary to guarantee or become liable, in any way as surety, endorser (other than as endorser of negotiable instruments for deposit or collection in the ordinary course of business), accommodation endorser or otherwise for, nor pledge or hypothecate, any of its assets as security for, any liabilities or obligations of any other person or entity, except (a) indebtedness or liabilities to Trade Bank, (b) those unsecured guarantees, if any, in existence on the date hereof which are listed on Exhibit "F" attached hereto, (c) indebtedness on account of loans made after the date hereof by any one or more persons or entities other than Borrowers or Subsidiaries to Opto Singapore or Opto Malaysia not exceeding $3,500,000 in the aggregate on a combined basis, and (d) indebtedness to Wells Fargo under credit facilities existing, and at credit availability levels existing, as of the date hereof.

5.8 Loans and Investments. Make, or permit any Subsidiary to make, any loans or advances to, or investments in, any person or entity except for (a) loans hereafter from any borrower or Subsidiary to Rapiscan Security Products (U.S.A.), Inc. ("Rapiscan") or Rapiscan UK not to exceed $4,500,000 in the aggregate on a combined basis, (b) loans made after the date hereof from any Borrower or Subsidiary to any other person or entity not to exceed $150,000 in the aggregate for all such loans combined, and (c) loans between and among any Borrowers and/or Affiliates existing as of the date hereof and disclosed on Borrowers' and Affiliates' financial statements dated as of September 28, 1996. Trade receivables and trade payables created in the ordinary course of Borrowers' business shall not be considered loans, advances or investments hereunder.

5.9 Indebtedness For Borrowed Money. Create, incur, assume or permit to exist, or permit any Subsidiary to create, incur, assume or permit to exist, any indebtedness or liabilities resulting from borrowings, loans or advances, whether secured or unsecured, matured or unmatured, liquidated or unliquidated, joint or several, except (a) indebtedness or liabilities to Trade Bank, (b) indebtedness or liabilities subordinated to the Obligations by an instrument or agreement in form and substance acceptable to Trade Bank, (c) indebtedness or liabilities of any Borrower or any Subsidiary existing as of, and disclosed to Trade Bank in writing prior to, the date hereof, (d) indebtedness on account of loans made after the date hereof from any one or more Borrowers or Subsidiaries to Rapiscan or Rapiscan UK not exceeding $4,500,000 in the aggregate on a combined basis, (e) indebtedness on account of loans made after the date hereof by any one or more persons or entities other than Borrowers or Subsidiaries to Opto Singapore or Opto Malaysia not exceeding $3,500,000 in the aggregate on a combined basis, and (f) indebtedness to Wells Fargo under credit facilities existing, and at credit availability levels existing, as of the date hereof. Trade receivables and trade payables created in the ordinary course of business shall not be considered borrowings, loans, or advances hereunder.

5.10 Lease Expenditures. Incur, or permit any Subsidiary to incur, new obligations for the lease or hire of real or personal property requiring payments in any fiscal year in excess or an aggregate of $500,000 for all Borrowers and Subsidiaries combined; provided, however, that for the purpose of calculating

such limit on new obligations for the lease or hire of real or personal property, the renewal or replacement of an existing lease shall not be considered a new obligation except to the extent there is an increase in the required payments thereunder.

VI
EVENTS OF DEFAULT AND REMEDIES

6.1 Events of Default. The occurrence of any of the following shall constitute an "Event of Default":

(a) Failure to Make Payments When Due. Borrowers' failure to comply with any obligation to pay principal, interest, fees or other amounts when due under any Loan Document, provided, however, that in the case of interest and fees, Borrowers shall have a two Business Day grace period following the due date thereof before Borrowers' failure to pay such interest or fees when due shall constitute an Event of Default.

(b) Failure to Perform Obligations. Any failure by Borrowers to comply with any covenant or obligation in this Agreement or in any Loan Document (other than those referred to in subsections (a), (c) and (d) hereof), and with respect to any such default which by its nature can be cured, such default shall continue for a period of thirty (30) calendar days from its occurrence.

(c) Untrue or Misleading Warranty or Statement. Any warranty, representation, financial statement, report or certificate made or delivered by Borrowers under any Loan Document is untrue or misleading in any material respect when made or delivered.

(d) Defaults under Ex-Im Bank Borrower Agreement. Any Borrower fails to comply with any covenant, agreement or condition set forth in the Ex-Im Bank Borrower Agreement.

(e) Defaults Under Other Loan Documents. Any default in the payment or performance of any obligation, or any defined event of default, occurs under any of the Loan Documents other than this Agreement, which is not cured within any cure period applicable thereto; the Ex-Im Bank Guaranty referenced in Section 2.6 of this Agreement is no longer in full force and effect (or any claim thereof made by Ex-Im Bank); or any breach of the provisions of any Subordination Agreement or Intercreditor Agreement by any party other than the Trade Bank.

(f) Defaults Under Other Agreements or Instruments. Any default in the payment or performance of any obligation, or the occurrence of any event of default, under the terms of any other agree ment or instrument pursuant to which any Borrower or any Subsidiary has incurred any debt or other material liability to any person or entity, AND THE INDEBTEDNESS OR OBLIGATION TO WHICH THE DEFAULT APPLIES EXCEEDS $100,000, INDIVIDUALLY OR IN THE AGGREGATE FOR ALL SUCH DEFAULTS BY BORROWERS AND SUBSIDIARIES COMBINED.

(g) Judgments and Levies Against Borrowers. The filing of a notice of judgment lien against Borrowers, or the recording of any abstract of judgment against Borrowers, in any county in which Borrowers have an interest in real property, or the service of a notice of levy and/or of a writ of attachment or execution, or other like process, against the assets of any Borrower or Subsidiary, or the entry of a judgment against any Borrower or Subsidiary; PROVIDED, HOWEVER, THAT SUCH JUDGMENTS, LIENS, LEVIES, WRITS, EXECUTIONS AND OTHER PROCESS INVOLVE DEBTS OF OR CLAIMS AGAINST ANY BORROWER OR ANY SUBSIDIARY IN EXCESS OF $100,000, INDIVIDUALLY OR IN THE AGGREGATE FOR ALL SUCH JUDGMENTS, LIENS, LEVIES, WRITS, EXECUTIONS AND

OTHER PROCESS AGAINST BORROWERS AND SUBSIDIARIES COMBINED, AND WITHIN TWENTY (20) DAYS AFTER THE CREATION THEREOF, OR AT LEAST TEN (10) DAYS PRIOR TO THE DATE ON WHICH ANY ASSETS COULD BE LAWFULLY SOLD IN SATISFACTION THEREOF, SUCH DEBT OR CLAIM IS NOT SATISFIED, OR STAYED PENDING APPEAL AND INSURED AGAINST IN A MANNER SATISFACTORY TO BANK.

(h) Voluntary Insolvency. Borrowers, any Subsidiary or any Guarantor (i) becomes insolvent, (ii) suffers or consents to or applies for the appointment of a receiver, trustee, custodian or liquidator of itself or any of its property, (iii) generally fails to pay its debts as they become due, (iv) makes a general assignment for the benefit of creditors, or (v) files a voluntary petition in bankruptcy, or seeks reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as amended or recodified from time to time ("Bankruptcy Code"), or under any state or Federal law granting relief to debtors, whether now or hereafter in effect.

(i) Involuntary Insolvency. Any involuntary petition or proceeding pursuant to the Bankruptcy Code or any other applicable state or federal law relating to bankruptcy, reorganization or other relief for debtors is filed or commenced against any Borrower or any Subsidiary, and such involuntary petition or proceeding is unopposed or is not dismissed within sixty (60) days of its commencement; or any Borrower or any Subsidiary shall file an answer admitting the jurisdiction of the court and the material allegations of any involuntary petition; or any Borrower or any Subsidiary shall be adjudicated a bankrupt, or an order for relief shall be entered by any court of competent jurisdiction under said Bankruptcy Code or any other applicable state, federal or other law relating to bankruptcy, reorganization or other relief for debtors.

(j) Change in Ownership. Any change in ownership DURING THE TERM OF THIS AGREEMENT OF AN AGGREGATE OF TWENTY-FIVE PERCENT (25%) OR MORE OF THE COMMON STOCK OF BORROWER OR ANY SUBSIDIARY, EXCEPT FOR A CHANGE IN OWNERSHIP TO WHICH TRADE BANK EXPRESSLY CONSENTS IN WRITING.

6.2 Remedies. Upon the occurrence of any Event of Default, or at any time thereafter, Trade Bank, at its option, and without notice or demand of any kind (all of which are hereby expressly waived by Borrowers), may do any one or more of the following: (a) terminate Trade Bank's obligation to make Advances or to make available to Borrowers the Facilities or other financial accommodations; (b) accelerate and declare all or any part of the Obligations to be immediately due, payable, and performable, notwithstanding any deferred or installment payments allowed by any instrument evidencing or relating to any Advance; and/or (c) exercise all its rights, powers and remedies available under the Loan Documents, or accorded by law, including, but not limited to, the right to resort to any or all Collateral or other security for any of the Obligations and to exercise any or all of the rights of a beneficiary or secured party pursuant to applicable law. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IF ANY EVENT OF DEFAULT SET OUT IN SUBSECTIONS (H) OR (I) OF SECTION 6.1 ABOVE SHALL OCCUR, THEN ALL THE REMEDIES SPECIFIED IN CLAUSES (A) AND (B) OF THE PRECEDING SENTENCE SHALL AUTOMATICALLY TAKE EFFECT WITHOUT NOTICE OR DEMAND OF ANY KIND (ALL OF WHICH ARE HEREBY EXPRESSLY WAIVED BY BORROWERS) WITH RESPECT TO ANY AND ALL OBLIGATIONS. All rights, powers and remedies of Trade Bank may be exercised at any time by Trade Bank and from time to time after the occurrence of an Event of Default, are cumulative and not exclusive, and shall be in addition to any other rights, powers or remedies provided by law or equity.

VII
GENERAL PROVISIONS

7.1 Notices. All notices to be given under this Agreement shall be in writing and shall be given personally or by regular first-class mail, by certified mail return receipt requested, by a private delivery service which obtains a signed receipt, or by facsimile transmission addressed to Trade Bank or Borrowers at the address indicated after their signature to this Agreement, or at any other address designated in writing by one party to the other party. Trade Bank is hereby authorized by Borrowers to act on such instructions or notices sent by facsimile transmission or telecommunications device which Trade Bank believes come from Borrowers. All notices shall be deemed to have been given upon delivery, in the case of notices personally delivered or delivered by private delivery service, upon the expiration of 3 calendar days following the deposit of the notices in the United States mail, in the case of notices deposited in the United States mail with postage prepaid, or upon receipt, in the case of notices sent by facsimile transmission.

7.2 Waivers. No delay or failure of Trade Bank in exercising any right, power or remedy under any of the Loan Documents shall affect or operate as a waiver of such right, power or remedy; nor shall any single or partial exercise of any such right, power or remedy preclude, waive or otherwise affect any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, consent or approval by Trade Bank under any of the Loan Documents must be in writing and shall be effective only to the extent set out in such writing.

7.3 Benefit of Agreement. The provisions of the Loan Documents shall be binding upon and inure to the benefit of the respective successors, assigns, heirs, executors, administrators, beneficiaries and legal representatives of Borrowers and Trade Bank; provided, however, that Borrowers may not assign or transfer any of their rights under any Loan Document without the prior written consent of Trade Bank, and any prohibited assignment shall be void. No consent by Trade Bank to any assignment shall release Borrowers from their liability for the Obligations unless such release is specifically given by Trade Bank to Borrowers in writing. Trade Bank reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in, Trade Bank's rights and benefits under each of the Loan Documents. In connection therewith, Trade Bank may disclose any information relating to the Facilities, Borrowers or their business, or any Guarantor or its business.

7.4 No Third Party Beneficiaries. This Agreement is made and entered into for the sole protection and benefit of Borrowers and Trade Bank and their respective permitted successors and assigns, and no other person or entity shall be a third party beneficiary of, or have any direct or indirect cause of action or claim in connection with, any of the Loan Documents to which it is not a party.

7.5 Joint and Several Liability.

(a) Each Borrower has determined and represents to Trade Bank that it is in its best interest and in pursuance of its legitimate business purposes to induce Trade Bank to extend credit pursuant to this Agreement. Each Borrower acknowledges and represents that its business is related to the business of the other Borrowers, the availability of the commitments provided for herein benefits each Borrower, and Credit Extensions made hereunder will be for and inure to the benefit of Borrowers, individually and as a group.

(b) Each Borrower has determined and represents to Trade Bank that it has, and after giving effect to the transactions contemplated by this Agreement will have, assets having a fair saleable value in excess of its debts, after giving effect to any rights of contribution or subrogation which may be available

to such Borrower, and each Borrower has, and will have, access to adequate capital for the conduct of its business and the ability to pay its debts as such debts mature.

(c) Each Borrower promises to repay to Trade Bank all Advances disbursed to or Letters of Credit issued for its account or to or for the account of any of the other Borrowers under any of the Facilities, together with interest thereon and costs and expenses incurred by Trade Bank in connection therewith, all in accordance with this Agreement. The obligations of Borrowers hereunder are joint and several, and a separate action may be brought against any Borrower whether action is brought against any of the other Borrowers or any other person, or whether any of the other Borrowers or any other person is joined in any such action. Each Borrower waives any right to require Trade Bank to (i) proceed against any person, including any of the other Borrowers, (ii) proceed against any or exhaust any security held from any Borrower or any other person, or (iii) disclose any information about any Borrower. Each Borrower waives any defense based upon (i) any defense of any of the other Borrowers, (ii) the cessation or limitation from any cause, other than payment in full, of the indebtedness of any of the other Borrowers, (iii) the release of any security for the indebtedness of any Borrower, (iv) the application of payments received by Trade Bank from any of the other Borrowers to indebtedness of any of such Borrowers to indebtedness of such Borrowers unrelated to the Facilities, (v) the release of any of the other Borrowers of any liability to Trade Bank, (vi) the compromise or modification with any of the other Borrowers of Trade Bank's claims against any of such Borrowers, (vii) any election of remedies by Trade Bank which adversely affects or destroys a Borrower's subrogation rights or rights to proceed against any of the other Borrowers for reimbursement. Each Borrower agrees that it will not seek to exercise any rights of contribution which it may have as a matter of law or otherwise as against the other Borrowers hereunder or under any of the other Loan Documents until all indebtedness arising under or in connection herewith shall have been indefeasibly paid in full, and if by law any right of contribution may not be postponed, then such right shall be subordinate to the rights of Trade Bank under this Agreement and the other Loan Documents. Until all indebtedness arising under or in connection with this Agreement shall have been indefeasibly paid in full, no Borrower shall be subrogated in whole or in part to the rights of Trade Bank, and if by law any Borrower is so subrogated, such right shall be subordinate and junior to the rights of Trade Bank hereunder and under the other Loan Documents until the indefeasible payment of all indebtedness arising under or in connection with this Agreement.

7.6 Governing Law and Jurisdiction. This Agreement shall, unless provided differently in any Loan Document, be governed by, and be construed in accordance with, the internal laws of the State of California, except to the extent Trade Bank has greater rights or remedies under federal law whether as a national bank or otherwise. Borrowers and Trade Bank (a) agree that all actions and proceedings relating directly or indirectly to this Agreement shall be litigated in courts located within California; (b) consent to the jurisdiction of any such court and consent to service of process in any such action or proceeding by personal delivery or any other method permitted by law; and (c) waive any and all rights Borrowers may have to object to the jurisdiction of any such court or to transfer or change the venue of any such action or proceeding.

7.7 Severability. Should any provision of any Loan Document be prohibited by, or invalid under applicable law, or held by any court of competent jurisdiction to be void or unenforceable, such defect shall not affect, the validity of the other provisions of the Loan Documents.

7.8 Entire Agreement; Amendments. This Agreement and the other Loan Documents are the final, entire and complete agreement between Borrowers and Trade Bank concerning the Facility. There are no oral understandings, representations or agreements between the parties concerning the Facility which are not set forth in the Loan Documents. The Loan Documents may not be waived, amended or superseded except in a writing executed by Borrowers and Trade Bank.

7.9 Collection of Payments. Unless otherwise specified in any Loan Document, all principal, interest and any fees due to Trade Bank by Borrowers under any Loan Document will be paid by Trade Bank having Wells Fargo debit any of Borrowers' accounts with Wells Fargo and forwarding such amount debited to Trade Bank, without presentment, protest, demand for reimbursement or payment, notice of dishonor or any other notice whatsoever, all of which are hereby expressly waived by Borrowers. Such debit will be made at the time principal, interest or any fee is due to Trade Bank pursuant to any Loan Document. No late charge shall apply to any payment which Trade Bank has the option hereunder to collect by causing Wells Fargo to debit any of Borrower's account(s), during any such time as such account(s) contain collected and available funds sufficient to make such payment.

7.10 Costs, Expenses and Attorneys' Fees. Borrowers will reimburse Trade Bank for all costs and expenses, including, but not limited to, reasonable attorneys' fees and expenses (which counsel may be Trade Bank or Wells Fargo employees), expended or incurred by Trade Bank (a) in the preparation and negotiation of this Agreement, the Notes, the Collateral Documents, the Exhibits, and the Facility Documents, subject to Trade Bank's agreement that it will not seek reimbursement from Borrowers for attorney's fees incurred by Trade Bank in connection with the preparation and negotiation of this Agreement and each of the other Loan Documents in excess of Two Thousand Dollars ($2,000), (b) in amending this Agreement, the Collateral Documents, the Notes, the Exhibits, or the Facility Documents, in collecting any sum which becomes due Trade Bank on the Notes, under this Agreement, the Collateral Documents, the Exhibits, or any of the Facility Documents, or (c) in the protection, perfection, preservation and enforcement of any and all rights of Trade Bank in connection with this Agreement, the Notes, any of the Collateral Documents, any of the Exhibits, or any of the Facility Documents, including, without limitation, the fees and costs incurred in any out-of-court work out or a bankruptcy or reorganization proceeding.

VIII
DEFINITIONS

8.1 "Agreement" means this Agreement and the Exhibits attached hereto, as corrected or modified from time to time by Trade Bank and Borrowers.

8.2 "Affiliate" and "Affiliates" mean, individually and collectively, Opto Sensors-FSC, Inc., a U.S. Virgin Islands corporation ("Opto FSC"), Opto Sensors (Singapore) Pte. Ltd., a company organized under the laws of the Republic of Singapore ("Opto Singapore"), Opto Sensors (Malaysia), Snd. Bhd., a company organized under the laws of Malaysia ("Opto Malaysia"), Rapiscan UK and Rapisan India.

8.3 "Available Export Order Credit Limit" means, at any given time, the aggregate invoiced Dollar amount of all Export Orders, the invoice date of which has not yet passed, and which have not yet been paid in full, less the Dollar amount of any partial payments made on account of such Export Orders.

8.4 "Borrowing Base" has that meaning assigned to it in the Ex-Im Bank Borrower Agreement (using a Disbursement Rate of ninety percent (90%) for eligible Accounts Receivable and eighty percent (80%) for eligible Inventory).

8.5 "Borrowing Base Certificate" means a certificate, in the form of Exhibit "B" hereto, showing Collateral Business Day values satisfactory to Trade Bank.

8.6 "Business Day" shall mean any day except Saturday, Sunday and any day specified as a holiday by federal or California Statute.

8.7 "Buyer" shall mean an entity which has entered into one or more orders with Borrowers.

8.8 "Closing Date" means the date on which the first Advance is made.

8.9 "Collateral" means all export related inventory and accounts receivable and other property securing the Obligations.

8.10 "Collateral Documents" means the Security Agreement, the Subordination Agreement, the Intercreditor Agreement, and other credit support documents required by Trade Bank to provide collateral and credit support for the Advances.

8.11 "Credit Extension" means each extension of credit under the Facilities (whether funded or unfunded), including, but not limited to (a) Revolving Credit Loans, and (b) Standby Credits.

8.12 "Credit Limit" means, with respect to any Facility, the amount specified under the column labeled "Credit Limit" in the Supplement for that Facility.

8.13 "Credit Sublimit" means, with respect to any Subfacility, the amount specified after the name of that Subfacility under the column labeled "Credit Sublimit" in the Supplement for the related Facility.

8.14 "Dollars" and "$" means United States dollars.

8.15 "Ex-Im Bank" means the Export-Import Bank of the United States.

8.16 "Ex-Im Bank Borrower Agreement" means that "Borrower Agreement" of even date herewith executed by Borrowers and Trade Bank in the form attached hereto as Exhibit "D".

8.17 "Export Order" means a written export order or contract for the purchase by a Buyer from Borrowers of the items.

8.18 "Facility Documents" means, with respect to any Facility, those documents specified in the Supplement for that Supplement for that Facility, and any other documents customarily required by Trade Bank for such Facility.

8.19 "Facility Termination Date" means, with respect to any Facility, the date specified in the Supplement for that Facility after which no further Credit Extensions will be made under that Facility.

8.20 "GAAP" means generally accepted accounting principles, which are applicable to the circumstances, as of the date of determination, set out in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and in the statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession.

8.21 "Items" shall mean finished goods consisting of electronic scanning equipment or components thereof, which are intended for exports, or services related to the delivery or installation of such goods.

8.22 "Loan Authorization Agreement" has that meaning assigned to it in the Ex-Im Bank Borrower Agreement.

8.23 "Loan Documents" means this Agreement, the Exhibits (including, without limitation, the Ex-Im Bank Borrower Agreement), the Facility Documents and the Collateral Documents.

8.24 "Obligations" means (a) the obligations of Borrowers to pay principal, interest and fees on all funded Credit Extensions and fees on all unfunded Credit Extensions, and (b) the obligations of Borrowers to pay and perform when due all other indebtedness, liabilities, obligations and covenants required under the Loan Documents.

8.25 "Permitted Liens" shall mean the following:

(a) purchase money security interests in specific items of Borrowers' equipment;

(b) leases of specific items of Borrowers' equipment;

(c) liens for Borrowers' taxes not yet payable;

(d) security interests and liens consented to in writing by Trade Bank in its sole discretion;

(e) security interests being terminated concurrently with the effectiveness of the Agreement;

(f) SECURITY INTERESTS EXISTING AS OF THE DATE OF THIS AGREEMENT IN FAVOR OF WELLS FARGO;

(g) LIENS ON THE PERSONAL PROPERTY ASSETS OF UDT SENSORS, INC. ("UDT") WHICH MAY BE GRANTED HEREAFTER IN FAVOR OF THE UNITED STATES OF AMERICA AS SET FORTH IN THAT CERTAIN STIPULATION FOR CONSENT JUDGMENT REFERRED TO IN AND EXECUTED PURSUANT TO THAT CERTAIN CRIMINAL PLEA AND SENTENCING AND AGREEMENT BETWEEN UDT AND THE UNITED STATES ATTORNEY'S OFFICE FOR THE CENTRAL DISTRICT OF CALIFORNIA, PROVIDED THAT SUCH LIENS HAVE BEEN SUBORDINATED TO ALL SECURITY INTERESTS OF TRADE BANK IN THE PERSONAL PROPERTY OF UDT PURSUANT TO A SUBORDINATION AGREEMENT IN FORM AND SUBSTANCE SATISFACTORY TO TRADE BANK; AND

(h) LIENS ON THE ASSETS OF OPTO SINGAPORE AND OPTO MALAYSIA WHICH SECURING INDEBTEDNESS OF LESS THAN THREE MILLION FIVE HUNDRED THOUSAND DOLLARS ($3,500,000) IN THE AGGREGATE FOR BOTH ENTITIES COMBINED.

8.26 "Prime Rate" means the rate most recently announced by Wells Fargo at its principal office in San Francisco, California as its "Prime Rate", with the understanding that the Prime Rate is one of Wells Fargo's base rates and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof after its announcement in such internal publication or publications as Wells Fargo may designate. Any change in an interest rate resulting from a change in the Prime Rate shall become effective as of 12:01 a.m. of the Banking Day on which each change in the Prime Rate is announced by Wells Fargo.

8.27 "Revolving Credit Loans" mean advances made pursuant to the Revolving Credit Loan Supplement to this Agreement.

8.28 "Standby Credits" mean standby letters of credit issued pursuant to the Standby Letter of

Credit Supplement to this Agreement.

8.29 "Subsidiary" and "Subsidiaries" means, individually and collectively, Opto Sensors-FSC, Inc., a U.S. Virgin Islands corporation ("Opto FSC"), Opto Sensors (Singapore) Pte. Ltd., a company organized under the laws of the Republic of Singapore ("Opto Singapore"), Opto Sensors (Malaysia), Sld. Bhd., a company organized under the laws of Malaysia ("Opto Malaysia"), and Rapiscan UK.

8.30 "Wells Fargo" means Wells Fargo Bank, N.A.

Borrowers and Trade Bank have caused this Agreement to be executed by their duly authorized officers or representatives on the date specified below.

OPTO SENSORS, INC.

By: /s/ Ajay Mehra

Title: Secretary

UDT SENSORS, INC.

By: /s/ Ajay Mehra

Title: Secretary

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

By: /s/ Ajay Mehra

Title: Secretary

FERSON OPTICS, INC.

By: /s/ Ajay Mehra

Title: Secretary

Borrower's Address:
12525 Chadron Ave.
Hawthorne, CA. 90250

"LENDER"

WELLS FARGO HSBC TRADE BANK,
NATIONAL ASSOCIATION

By: /s/ Jan Macy-Buescher
Jan Macy-Buescher
Title: Vice-President

Lender's Address:
333 South Grand Avenue, 8th Floor
Los Angeles, CA 90071

EXHIBIT 10.17

LICENSE AGREEMENT

THIS AGREEMENT is made and entered into as of the 19th day of December 1994, by and between:

EG&G Inc., a corporation of the Commonwealth of Massachusetts, having a principal place of business at EG&G Instruments Group, 45 William Street, Wellesley, Massachusetts 02181, ("LICENSOR")

and

Rapiscan Security Products, Inc., a corporation of the State of California, having a principal place of business at 2830 Temple Avenue,, Long Beach, California 90806, ("LICENSEE")

CONSIDERATIONS UNDERLYING THIS AGREEMENT

LICENSOR is the parent company of the owner of the entire right, title and interest in United States Patent 4,366,382 entitled X-RAY LINE SCAN SYSTEM FOR USE IN BAGGAGE INSPECTION (the "LICENSED PATENT") and has the right to make this license;

LICENSEE desires to obtain from LICENSOR a license under the patent regarding both past and future sales of products read upon by any of the claims of LICENSED PATENT ("LICENSED PRODUCTS");

LICENSEE and LICENSOR intend for this Agreement to prescribe the rights and obligations among the parties regarding the LICENSED PATENT and all LICENSED PRODUCTS; and LICENSOR is willing to grant such a license;

NOW THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions

A) "NET SALES" means with respect to LICENSED PRODUCTS sold by LICENSEE,, the number of current LICENSED PRODUCTS SOLD by LICENSEE to purchasers (if said purchasers are unrelated to LICENSEE) times the ROYALTY BASE for each LICENSED PRODUCT.

B) "SOLD" means thirty (30) days from the day first billed out, shipped, paid for or put into use, whichever shall first occur, excluding transfers for resale (but not for use) between LICENSEE and its affiliated companies and excluding non-revenue bearing transfers for demonstration including but not limited to reliability testing purposes.

C) "AFFILIATE" shall mean and include any legal entity at least thirty three percent (33%) of which directly or indirectly

controls, is controlled by, or is under common control with a party of this Agreement.

D) LICENSEE and LICENSOR acknowledge that the ROYALTY BASE has been the subject of negotiation and is intended to define a royalty only on the subject matter of the claims of the LICENSED PATENT while maintaining simplicity in accounting. The ROYALTY BASE is also intended to exclude returns and separately set forth charges, if any, included in the invoiced price including, but not by way of limitation, charges for packing, transportation, design, engineering, special testing, insurance, taxes, customs, duties, installation and warranty charges. In the event LICENSEE shall transfer LICENSED PRODUCTS to related or affiliated third parties, the NET SALE shall be the ROYALTY BASE applicable to a sale to an unrelated or unaffiliated third party or if such transfer had been made as a normal sale.

E) "EFFECTIVE DATE" shall mean the date first written above.

F) "LICENSED PATENT" shall include foreign counterparts, including Canadian Patent 1,171,980, reissue or reexamined patents, PCT, divisions, continuations or continuations-in-part thereof.

2. Grant of License

LICENSOR hereby grants to LICENSEE a non-exclusive, personal, non-transferable right and license in the LICENSED PATENT to make, have made, use and sell or otherwise dispose of LICENSED PRODUCTS.

3. Royalties

A) LICENSEE shall pay to LICENSOR a continuing royalty equal to eight percent (8%) of LICENSEE's NET SALES.

B) i. The ROYALTY BASE for LICENSEE's current X-Ray scanner shall be twenty eight thousand dollars ($28,000).

ii. Comparable models of X-ray scanners shall have a ROYALTY BASE of sales price less a fourteen percent (14%) allowance for warranty and installation charges, but the ROYALTY BASE shall not exceed fifty thousand dollars ($50,000) less allowance.

iii. LICENSOR and LICENSEE shall negotiate a ROYALTY BASE for X-ray scanners having significantly distinguishable operating features, such as suitability for the automatic market.

C) As consideration for LICENSEE's making of LICENSED PRODUCTS prior to the effective date of this Agreement, LICENSEE shall pay or shall cause an AFFILIATE to pay to LICENSOR the sum calculated by multiplying the aggregate NET SALES of LICENSED PRODUCTS made, sold or otherwise disposed of in the United States from April 1988 to the EFFECTIVE DATE by the continuing royalty percentage in Article 3A above. The sum shall be paid to LICENSOR within thirty (30) days following the EFFECTIVE DATE. A report in accordance with the requirements of Article 4A below shall be required with the payment.

D) The obligation to pay royalties shall extend to the expiration of the LICENSED PATENT or until a judgment from a court of last resort that the LICENSED PATENT is declared invalid becomes final.

4. Reports and Payments

A) Within forty five (45) days after the and of each calendar quarter, LICENSEE shall render to LICENSOR a report stating the number and types of LICENSED PRODUCTS manufactured, used or sold during said quarter, the NET SALES of the LICENSED PRODUCTS, and a computation of royalties due LICENSOR. At the time of rendering such report, LICENSEE shall make the royalty payment required by this Agreement.

B) LICENSEE agrees to keep full and accurate records, files and books of account for a period of four (4) years following each report to LICENSOR containing all the data reasonably required for the computation and verification of the royalties paid and the information given in the reports provided for herein.

C) LICENSOR shall have the right, during reasonable hours and upon reasonable advance notice, to have the correctness of any such report audited at LICENSOR'S expense, by a firm of independent public accountants, selected by LICENSOR and reasonably acceptable to LICENSEE, which shall examine LICENSEE's records only on matters pertinent to this Agreement. No more than one such audit shall be conducted per annum. LICENSOR shall authorize said independent public accountants to enter into a reasonable proprietary agreement in order to shield LICENSOR from proprietary business information of LICENSEE. In the event that it shall be determined by said independent public accountants at any time that LICENSEE has under reported in an amount in excess of ten percent (10%) of the royalties properly due with one or more reports, LICENSEE, in addition to any other remedy shall reimburse LICENSOR's full cost and expense associated with such audit and to pay to LICENSOR an amount equal to two (2) times that which LICENSEE has failed to report or pay.

D) All payments shall be in United States currency payable to LICENSOR at the address specified below and shall be in immediately available funds.

E) All payments due pursuant hereto shall be made without deduction of taxes of any kind. In the event applicable exchange control regulations prevent remittance of United State currency by LICENSEE, LICENSEE agrees at LICENSOR's option to deposit an equivalent amount in a currency and in a bank as designated by LICENSOR for the account of LICENSOR.

5. Most Favored Licensee

If subsequent to the Effective Date of this agreement another manufacturer of X-ray scanning systems similarly situated to LICENSEE is granted a license by LICENSOR which provides to said manufacturer a combined royalty rate and royalty base more favorable than that provided herein to LICENSEE, LICENSOR shall notify LICENSEE of any such license, and describe in the notice such more favorable combined rate and base as well as any additional burdens imposed upon such manufacturer. LICENSEE shall have thirty (30) days to notify LICENSOR whether LICENSEE desires to have the more favorable combined rate and bass provided that LICENSEE shall also accept the additional burdens. If LICENSEE elects to adopt such more favorable license terms, such adoption and such terms will be effective as of the first day of the

reporting quarter containing the effective date of the agreement between LICENSOR and said manufacturer.

6. Non-assignability

A) The license granted herein is non-assignable and LICENSEE shall not grant a sublicense hereunder. Change of control of LICENSEE shall constitute an assignment of this license which shall be permitted with written consent of LICENSOR, which consent shall not be unreasonably withheld. An initial public offering of shares by LICENSEE shall not constitute a "Change of Control" within the meaning of this paragraph.

B) LICENSOR may assign this Agreement and its obligations herein to any Affiliate of LICENSOR. LICENSOR shall give LICENSEE prompt notice of any such assignment.

7. Patent Marking

Commencing within ninety (90) days following the EFFECTIVE DATE, LICENSEE agrees to mark LICENSED PRODUCTS to specify that the LICENSED PRODUCTS are manufactured under license from Astrophysics Research Corporation and in a form in accordance with the notice requirements of Title 35 of the United States Code, Section 287. The following form of notice will be acceptable to LICENSOR: "U.S.

Pat. No. 4,366,382." LICENSOR shall permit LICENSEE to promptly effect a cure should inadvertent failure to so mark be discovered.

8. Duration

A) This Agreement shall continue in full force and effect until the expiration of the LICENSED PATENT unless this Agreement is sooner terminated as herein provided.

B) LICENSOR may terminate this Agreement forthwith upon notice to LICENSEE if:

i. LICENSEE remains in default in making any payment or report required hereunder or fails to comply with any other provision hereof for a period of forty five (45) days, in each case after written notice of each such default or failure is given by LICENSOR; provided that if LICENSEE shall be in default in making any two successive payments or reports required hereunder on a timely basis, LICENSOR shall be entitled to terminate this Agreement forthwith upon notice to LICENSEE, unless a genuine good faith dispute exists as to the amount due and any amounts not in dispute are timely paid;

ii. LICENSEE should become insolvent, enter into bankruptcy voluntarily or involuntarily and the petition is not dismissed in 91 days or make any assignment for the benefit of one

or more creditors or should an order for compulsory liquidation of LICENSEE be made by any court;

iii. LICENSEE shall be determined by a court of competent jurisdiction to have willfully or deliberately violated any provision of this Agreement, or to have concealed from LICENSOR any failure to comply with this Agreement, including, but not limited to, the deliberate or willful understatement of royalties payable or the refusal to timely pay royalties, or shall be determined to have acted other than in good faith in breaking any provision of this Agreement; or

iv. LICENSEE shall have engaged in any unauthorized infringement of the LICENSED PATENT and shall not have cured such a default within a period of thirty (30) days after written notice from LICENSOR.

C) Any termination of the Agreement shall not relieve LICENSEE of liability for any payments accrued or owing prior to the date of such termination or for any payments on LICENSED PRODUCTS manufactured or located in the United States prior to the date of such termination and sold thereafter.

D) LICENSEE acknowledges, that this Agreement was entered into as a result of a dispute based upon LICENSOR's assertion that the LICENSED PATENT was valid and enforceable and was being

infringed by LICENSEE. The parties acknowledge that this Agreement is in lieu of a final settlement of the dispute. LICENSEE agrees that should it, during the term of this Agreement, contest the validity of the LICENSED PATENT by filing or causing others to file any legal action or any proceeding for reexamination of the LICENSED PATENT, then LICENSOR shall have the right to forthwith and thereafter terminate this Agreement and/or any, and all rights granted to LICENSEE by this Agreement, to the extent that the exercise of such right to terminate is permitted under the laws of the United States.

9. Notices

All notices required to be sent by either party under this Agreement shall be in writing and sent either by prepaid certified or registered U.S. mail, return receipt requested or by prepaid DHL, Federal Express or United States Postal Service Express mail for next business day delivery, and shall be deemed to have been duly given when received.

If to LICENSEE, to:

Rapiscan Security Products, Inc.
2830 Temple Avenue,
Long Beach, California 90806
Attention: President
FAX (310) 644-0616

If to LICENSOR, to:

EG&G Inc
45 William Street
Wellesley, MA 02181-4078
Attention: Vice President, Instruments Group
FAX (617) 431-4153

With a copy to:

EG&G, Inc.
45 William Street
Wellesley, Massachusetts 02181-4078
Attention: Vice President and General Counsel
FAX (617) 431-4115

unless a different address shall have been duly given previously.

10. Governing Law and Jurisdiction

A) The construction and legal effect of this Agreement shall be governed by the laws of the State of California, U.S.A. without regard to conflicts of laws rules.

B) Any disputes, controversies or claims between the parties arising out of or relating to this Agreement shall be settled by binding arbitration according to the rules of the American Arbitration Association. Such arbitration shall take place in Los Angeles County, California, or such other place as the parties may mutually agree.

C) Notwithstanding the foregoing, in the event that the parties do not agree on whether a particular design of X-ray

scanner product, marketed or to be marketed by LICENSEE, is read upon by the claims of the LICENSED PATENT, resolution of that question shall be resolved by such dispute mechanism as the parties shall agree to, or if they cannot agree, the dispute as to whether a particular design is read upon by the claims of a LICENSED PATENT shall be presented in a mini-trial format, using the Federal Rules of Evidence, where appropriate, to a group of three professionals ("Judges") acceptable to both parties, at least one of whom shall be a patent lawyer and at least one of whom shall be skilled in the art of X-ray scanners. At the end of the mini-trial, the question of whether the claims, properly construed and interpreted pursuant to the laws of the United States, shall be put to the three Judges. The majority vote of the three judges shall resolve the dispute and shall be binding on both parties and shall be the sole method for resolving any disputes directed to such a question in the absence of agreement of the parties. It is the intent of this section to provide a quick, inexpensive and binding resolution of such disputes.

11. Miscellaneous

A) LICENSOR makes no warranty, either express or implied, that the PRODUCTS manufactured and sold by LICENSEE will not infringe any patents of any country or nation of the world not owned or controlled by licensor.

B) LICENSOR undertakes to use its best efforts to enforce the LICENSED PATENT against third parties and to cause them to stop any infringement. LICENSEE may identify to LICENSOR from time to time in writing third parties whom it believes are infringing the LICENSED PATENT. LICENSOR shall make reasonable efforts to determine whether those third parties are infringing. LICENSOR shall within 120 days notify LICENSEE as to whether it believes the third party is infringing, and if not why not, or shall state to LICENSEE why infringement cannot be confirmed. Should LICENSOR cease to use best efforts to obtain cessation of unlicensed infringement of the LICENSED PATENT, LICENSEE beginning one year after notice to LICENSOR may pay all future royalties in to an escrow account payable to LICENSOR at such time as LICENSOR obtains cessation of unlicensed infringement of the LICENSED patent. Should efforts on behalf of LICENSOR cease, the escrow account shall be payable to LICENSEE. If such efforts on behalf of LICENSOR are continuing at the time the LICENSED PATENT expires, the escrow account shall be payable to LICENSOR. "Best efforts" as used herein shall allow LICENSOR full latitude to conduct its enforcement of the LICENSED PATENT, and actions that would not result in a finding of laches or estoppel in an infringement action, e.g. prosecuting only one lawsuit at a time, shall be deemed to meet the requirement of best efforts.

C) LICENSOR shall not be liable for any consequence or damage arising out of or resulting from anything made available

hereunder, or for the exercise by LICENSEE of any rights granted hereunder, nor be liable to LICENSEE for consequential damages under any circumstances.

D) If any provision of the Agreement is or becomes or is deemed invalid, illegal or unenforceable under the applicable laws or regulations of the United States, State of California or any other jurisdiction, such provision will be deemed to be amended to the extent necessary to conform to the applicable laws or regulations or, if it cannot be so amended without materially altering the intention of LICENSEE and LICENSOR, it will be stricken, and the remainder of this Agreement will remain in full force and effect.

E) This Agreement constitutes the entire understanding of the parties with respect to its subject matter and supersedes all prior and contemporaneous oral or written negotiations, agreements and understandings. This Agreement may be modified only in writing signed by LICENSOR and LICENSEE.

F) No failure or delay to act upon any default or to exercise any right, power or remedy hereunder will operate as a waiver of any such default, right, power or remedy.

G) This Agreement has been drafted on the basis of mutual understanding so that neither party shall be prejudiced as being the drafter thereof.

H) LICENSOR shall cause all payments, reports, audits, and other communications to be transmitted to and directly kept by LICENSOR and not transmitted or disclosed to LICENSOR's subsidiary, EG&G Astrophysics Research, a competitor of LICENSEE in X-ray baggage inspection systems. LICENSOR shall endeavor in good faith to not transmit to EG&G Astrophysics information derived from such communications. This Agreement and any payments made under this Agreement will not be used as a marketing tool by LICENSOR. Factual reference to the LICENSED PATENT as being the property of LICENSOR's subsidiary shall not be deemed to be use as a marketing tool.

I) LICENSOR warrants that it owns EG&G Astrophysics Research, Inc., the owner of the entire right title and interest of

the LICENSED PATENT, and that LICENSOR is legally capable of and authorized to enter into this Agreement.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed by its duly authorized representative.

LICENSOR:	LICENSEE:
EG&G INC.	RAPISCAN SECURITY PRODUCTS, INC.
By /s/	By /s/
Title: Vice President	Title:
Date: December 19, 1994	Date:

MODIFICATION TO LICENSE AGREEMENT

EG&G, Inc. (LICENSOR) and Rapiscan Security Products, Inc., (LICENSEE) hereby agree to modify the License Agreement entered into by and between the two companies on December 19, 1994, as follows:

Section 1, paragraph A is deleted and replaced with:

A) "NET SALES" shall men the total of the NET INVOICE PRICE for LICENSED PRODUCTS sold by LICENSEE that do not meet the criteria outlined in Sections Ai, Aii or Aiii of Paragraph 3.

The following paragraph is added to Section 1:

G) "NET INVOICE PRICE" shall mean the gross invoice selling price of each LICENSED PRODUCT sold by LICENSEE less warranty and installation charges of fourteen percent (14%). The term LICENSED PRODUCT shall not include any kits or any parts sold for additional assembly.

Paragraphs A, B and C of Section 3 are deleted and replaced with the following:

3. Royalties

A) LICENSEE shall pay LICENSOR a continuing royalty equal to eight percent (8%) of LICENSEE's NET SALES subject to the following exceptions:

i. For every "Series I" machine sold by LICENSEE at a NET INVOICE PRICE between $15,000 and $20,000, LICENSEE shall pay LICENSOR a flat rate of $750 per machine;

ii. For every "Series 300" machine sold by LICENSEE at a NET INVOICE PRICE between $20,000 and $30,000, LICENSEE shall pay LICENSOR a flat rate of $1000 per machine;

iii. For every "Series 500" machine sold by LICENSEE at a NET INVOICE PRICE

a) between $30,000 and $35,999, LICENSEE shall pay LICENSOR a flat rate of $1500 per machine.

b) between $36,000 and $42,000, LICENSEE shall pay LICENSOR a flat rate of $2000 per machine.

iv. If the NET INVOICE PRICE is below the lowest of the aforesaid minimums, then the royally for such sale shall be negotiated in good faith between the parties.

v. No royalty shall be paid on any portion of a NET INVOICE PRICE in excess of $50,000 for the above mentioned, or comparable, machine models.

All remaining sections of the License Agreement remain in full force and effect.

This modification is effective as of December 19, 1994.

LICENSOR	LICENSEE:
EG&G, INC.	RAPISCURITY PRODUCT INC.
By: /s/ Angelo Castellano	By: /s/ Deepak Chopra
Title: Vice President	Title: CEO

EXHIBIT 10.18

STOCK PURCHASE AGREEMENT

Agreement, dated 05/03, 1997 (herein and in the Exhibits attached hereto, referred to as the "Agreement"), between Industriinvestor ASA, a company with limited liability duly incorporated under Norwegian law ("Seller") and Opto Sensors Inc., a corporation duly incorporated under California law ("Buyer").

WITNESSETH:

WHEREAS, Seller is the owner of all the outstanding shares ("Shares") of Advanced Micro Electronics AS, a company with limited liability duly incorporated under Norwegian law ("AME");

WHEREAS, Seller desires to sell and assign the Shares to Buyer, and Buyer desires to purchase the Shares from Seller, as set forth in this agreement;

NOW, THEREFORE, the Buyer and Seller hereby agree as follows:

1. Sale and Purchase of Shares.

1.1 Sale and Purchase of Shares. Upon the terms and subject to the conditions contained herein, on the Closing Date (as defined in Section 3), Seller shall sell, convey, transfer and deliver to Buyer, and the Buyer shall purchase, acquire and accept from Seller, all of the Shares of AME.

2. Purchase Price.

2.1 Purchase Price. The Purchase Price of the Shares shall be NOK6.185.000, subject to a possible adjustment as provided in Section 2.2 (the "Purchase Price").

The financial statements of AME for 1995 and 1996 have been presented to Buyer in due time before the parties agreed upon the Purchase Price.

2.2 Payment of the Purchase Price. The Purchase Price shall be paid by Buyer as follows:

(a) Initial Payment. Buyer shall pay NOK2.500.000 on the Closing Date, and the remaining NOK3.685.000 of the Purchase Price ("Second Payment") is subject to a possible adjustment due to the Receivable Guarantee, and will be paid as provided for in Section 2.2(b).

(b) Payment of Second Payment. The Second Payment shall be made in three installments during 1997, the first on April 15th, the second on May 15th and the last on June 15th.

Each of the installments shall be for an amount equal to the full amount collected by AME on the Receivables (as defined below) in the calendar month(s) preceding the installment date, up to the full amount of the Second Payment.

Seller guarantees that AME will collect not less than NOK3.685.000 from the receivables of AME on its January 31st, 1997, balance sheet ("Receivables"), in the period from the Closing Date up to May 31st, 1997 ("Collecting Period"). To the extent that AME's collection of the Receivables at the end of the Collecting Period doe snot amount to NOK3.685.000, regardless of the reason therefor, the total amount of the Second Payment shall be reduced by the amount of the shortfall ("Shortfall").

In the event of a Shortfall at the end of the Collecting Period, the parties shall meet at AME to decide how to handle the remaining Receivables. To the extent any such remaining Receivables are collected, during the next 60 days after the end of the Collecting Period or the meeting if later, Seller shall receive the full amounts collected up to the amount of Shortfall, payable to Seller no later than the 15th of the month following the month that the amount was collected.

Buyer shall cause AME to make all reasonable efforts to collect the Receivables in accordance with its past practice. Seller holds the rights to assist in the collecting, or to take over the collecting if necessary, after the Collecting Period. No Receivables will be reduced or forgiven without written acceptance from Seller.

The payments under this Agreement shall be made by wire transfer to the transferee's bank account. For this purpose the parties shall notify each other before the Closing Date of their banks and their bank account numbers.

3. Closing. The closing of the sale and purchase provided for herein (the "Closing") will take place at the offices of Industriinvestor ASA (Oslo - Norway) on a date agreed between the parties, no later than February 19th, 1997 (the date of the closing being the "Closing Date").

At the Closing Date Seller shall deliver the share certificate(s), representing the all Shares, to Advokatfirmaet Schjodt AS as an Escrow Agent. According to an Escrow Agreement, mutually accepted between the parties, attached hereto as Exhibit A, the share certificate(s) will be released to Buyer on June 15th, provided that Buyer has paid the last instalment of the Second Payment in accordance with the Agreement, or earlier if Second Payment has been made in full. The Escrow Agreement shall also contain provisions and restrictions on voting, and guidelines for the Board of Directors.

4. Authority, Warranties and Covenants of Seller. Seller represents and warrants to and covenants with Buyer that:

4.1 Authority of Seller and Organization of AME. The execution, delivery, and performance of this Agreement have been duly authorized by all requisite corporate actions on the part of Seller. The Agreement has been duly executed and delivered by Sellers signatory thereto, and constitutes the valid, binding and enforceable obligation of Seller.

AME is a corporation duly organized, validly existing and in good standing under the laws of Norway, and has full corporate power and authority to conduct its business as it is now being conducted.

4.2 Ability to Carry Out the Agreement. Seller is not subject to, or bound by any provisions (stockholders agreement, Article of Association, law, statute, judgement, injunction etc.) that would prevent, be violated, or under which there would be any default as a result of the execution, delivery and performance by Seller of this Agreement.

4.3 Title to the Shares. The Shares constitute on the Closing Date all the outstanding shares of the capital stock of AME.

Seller is the sole and exclusive legal and equitable owner of, and has good marketable and insurable title to, the Shares.

The Shares have been duly authorized, validly issued and are fully paid.

There are no contracts or agreements relating to the issuance, sale or transfer of the Shares, including options or warrants.

4.4 Financial Statements; Loss Carry Forward. The profit and loss statement, and the balance sheet of AME for 1996 is attached hereto as Exhibit B. Seller has also delivered to Buyer an audited financial statement of AME for 1995, attached hereto as Exhibit C ("Statements").

The Statements have been prepared in accordance with Generally Accepted Accounting Principles and applicable laws and regulations, and fairly presents the financial situation of AME as of December 31st, 1995 and 1996 respectively. The Statements reflect all assets and liabilities of AME and do not fail to state or reflect any item material to the evaluation of AME as a going concern.

There are no claims against AME not reflected in the 1996 Statement that, according to Norwegian Generally Accepted Accounting Principles, should have been reflected.

The net accumulated tax losses of AME as of December 31st, 1996, (approximately NOK4.700.000) have not and will not be absorbed by Seller through consolidation of tax positions or otherwise.

4.5 Litigation and Claims. There is no action, suit, proceeding or investigation pending or, to the best of AME or Sellers knowledge, threatened, against AME or with respect to any of Its assets, at law, in equity or otherwise, nor is there any reasonable basis for any such action, suit, proceeding or investigation. All taxes of AME have been paid when due or have been reserved against in the Statements.

There are no judgments, orders or decrees entered against AME which have, or will likely have, an adverse effect on AME.

4.6 Compliance with Laws. AME's business is being conducted and has been conducted in compliance, in all material respects, with all applicable laws and regulations. AME

has not been notified by any governmental authority that AME is in violation of any applicable law or regulation in respect of the activities of its business.

4.7 Environmental Matters. AME's business is conducted and has been conducted in compliance with all environmental laws and regulations applicable to it. Neither Seller nor AME is aware, nor have either of them any reason to be aware, of any actions or failures to act on the part of AME that might lead to liability for pollution damage.

4.8 Insurance. AME has at all time maintained insurance relating to its business; covering property, fire, casualty, liability, workmen's compensation and all other form of insurance customarily obtained by similar businesses in the same industry.

4.9 Conduct of Business. From January 1st, 1997 until Closing Date Seller will cause AME to conduct its business in the same manner as previous to the negotiations of this Agreement, and there will be made no transactions, payments or other reductions of the assets of AME, other than in the ordinary course of business. AME has made no payments, or accrued any liability, to Seller prior to the Closing Date.

4.10 Board of Directors of the AME. Seller shall have the right to retain one member of the Board of Directors of AME until the Purchase Price has been fully paid according to Section 2.2(b).

4.11 Fees and Expenses. Seller shall pay all fees and expenses incurred by it in connection with this Agreement and the transactions contemplated herein.

4.12 Employees. All of the employees of AME have written employment agreements. None of the agreements contains unusual termination clauses (including "golden parachutes"), or other irregular compensation provisions. None of the employees has a salary exceeding NOK700.000.

4.13 No Infringement of Intellectual Property. None of the intellectual properties used by AME has at any time in the past infringed or misappropriated or otherwise violated, or is likely to violate, any intellectual property rights of any other person, nor is AME otherwise in the conduct of its business infringing upon the intellectual property of any other party.

4.14 Assets. All the Assets of AME are in good working order and sufficient for AME to continue its business substantially in the same manner as before.

4.15 Warranty Repairs. AME will not incur warranty repairs or return obligations in excess of NOK1OO.000 a year. Seller shall indemnify Buyer for any such obligation in excess of NOK100.000 a year.

4.16 Major Customer and Agreements. Neither Seller, nor AME has any knowledge to the effect that, or any reason to believe that, any major customer of AME is likely to terminate existing contracts with AME.

Attached as Exhibit D is a list of all the contracts, agreements and commitments of AME for the purchase of goods or services, or representing a total potential commitment of AME in excess of NOK100.000.

5. Representations, Warranties and Covenants of Buyer. Buyer represents and warrants to and covenants with Seller that:

5.1 Organization and Authority of Buyer. Buyer is a corporation, duly under incorporation, valid existing and in good standing under the laws of California, with the corporate power and authority to enter into this Agreement to which it is a signatory, and to perform its obligations hereunder. The execution, delivery, and performance of all sides of this Agreement have been duly authorized by all requisite corporate actions on the part of Buyer. The Agreement has bean duly executed and delivered by Buyer's signatory thereto, and constitutes the valid, binding and enforceable obligation of Buyer.

5.2 Ability to Carry Out the Agreement. Buyer is not subject to or bound by any provisions (law, statute, judgment, injunction etc.) that would prevent, be violated, or under which there would be any default as a result of the execution, delivery and performance by Buyer of this Agreement and the transactions contemplated hereby.

5.3 Fees and Expenses. Buyer shall pay all fees and expenses incurred by it in connection with this Agreement and the transactions contemplated herein.

5.4 The Tandberg Loan of AME. Buyer guarantees, as within March 31st, 1997, to release Seller from its obligation to Tandberg in respect of the Tandberg loan of AME. If necessary to release Seller from its obligation, Buyer will pay off the loan. Seller guarantees that AME's obligation to Tandberg, and therefore Sellers guaranty. does not exceed NOK1.997.036 (not including accumulated interest from January 1st, 1997, at 8% p.a., and accrued but unpaid interest for prior periods as reflected in the Statement as of December 31st, 1996).

5.5 Conduct of Business After the Closing Date. From the Closing Date until the Purchase Price is fully paid according to Section 2.2, Buyer will cause AME to conduct its business in the same manner as previous to the Closing Date, Buyer will cause AME not to, without acceptance from Seller, sell all or substantially all its assets, or to liquidate AME, or to decrease its share capital (other than as a result of losses, if any).

The parties will cause the Escrow Agent to exercise the voting rights of the Shares in compliance with the foregoing, and with a view to conserve the structure and the content of AME.

6. Post-Closing Obligations of Seller and Buyer. From after the Closing Date each party hereto shall fully cooperate and make available to the other party upon request, during normal business hours, all books, records and information necessary and useful in connection with tax return, governmental reports, or any other matter requiring such information or material, for any reasonable business.

7. Miscellaneous.

7.1 Indemnification of Buyer. Seller agrees to defend, indemnify and hold harmless Buyer against any and all claims and liabilities incurred by Buyer by reason of, or arising out of any false, misleading or inaccurate representation or warranty by the Seller

contained in this Agreement (including any Exhibits hereto), or any breach of any such representation or warranty, or any breach by the Seller of any provision of this Agreement.

7.2 Limitation of Seller's Liability. Any liability of Seller relating to this Agreement is limited to the net Purchase Price actually received, provided, however, that unless the aggregate damages do not reach NOK100.000, Seller shall have no liability. If the aggregate damages reach or exceed NOK100.000, Seller shall be liable for the full amount of the damage limited to the net Purchase Price actually received. For the purpose of NOK100.000 limit, any amounts accrued under Section 4.15 shall count, but such amounts shall not be indemnified other than pursuant to Section 4.15.

To be valid and covered by Sellers liability after this Agreement, any claims relating to the Agreement have to be reported to Seller within 3 months after Buyer's or AME's first knowledge of the breach or default.

Any claim -- with the exception of those-based on defects on title to the Shares and third party claims of patent infringement by AME -- must be made within 12 months after the Closing Date. This, however, shall. not apply to liability for taxes or amendments to AME's tax returns, nor for claims pursuant to Section 4.7 (Environmental matters).

7.3 Delay in Payment of the Purchase Price. Any delay in Buyer's payment of the Purchase Price, according to the provisions in Section 2.2, is regarded as a substantial breach of contract. In the event of such delay, Seller shall give Buyer written notice, following the receipt of which Buyer shall have 5 business days to remedy the default.

7.4 Professional Secrecy. Both parties of this Agreement are bound to observe professional secrecy regarding all and any information given or received in connection with the negotiations or the Agreement.

7.5 Notices. All notices and other communications hereunder shall be in writing, and shall be deemed to have been duly given if signed by the respective person giving such notice or other communications upon receipt of; hand delivery, certified or registered mail, return receipt requested, or telecopy transmission with confirmation of receipt:

If to Seller to: Industriinvestor ASA
Ovre Slottsgate 27
0157 Oslo, NORWAY

If to Buyer to: Opto Sensors, Inc.
12525 Chardon Avenue
Hawthorne, CA 90250 USA
Attn: Ajay Mehra

7.6 Amendments. This Agreement may be amended or modified only by a written agreement between the parties.

7.7 Applicable Law. This Agreement shall be governed by and construed in accordance with Norwegian law.

7.8 Enforceability. The invalidity of any portion of this Agreement shall not affect the validity, force or effect of the remaining portions. If it is held that any restriction hereunder is too broad to permit enforcement to its fullest extent, each party agrees that a court of competent jurisdiction may enforce such restriction to the maximum extent permitted by law, and each party hereby consents and agrees that such scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

7.9 Arbitration. Any dispute arising under this Agreement that is not solved by negotiations between the parties, shall be submitted to arbitration in accordance with the rules of the Oslo Chamber of Commerce. Any such arbitration shall be conducted in English and held in Oslo, Norway. The award of the arbitrators in any such proceeding shall be final and binding on the parties.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first set forth above, in two originals, one to each of the parties.

Dated: May 3, 1997

OPTO SENSORS, INC.	INDUSTRIINVESTOR ASA
/s/	/s/
_____	_____

EXHIBIT 11.1

OSI SYSTEMS, INC.
STATEMENT RE COMPUTATION OF PRO FORMA PER SHARE EARNINGS

	Year Ended	Nine Months Ended	
	June 30, 1996	March 31, 1996	March 31, 1997
Weighted Average Common Shares Outstanding	1,852,219	1,850,250	1,891,125
Conversion of Subordinated Debt and Preferred Stock	3,973,661	3,973,661	3,973,661
Acquisition of Minority Interests	178,956	178,956	178,956
Effect of Stock Options:			
-			
Granted within 12 months of initial public offering, treasury stock method	206,719	206,719	206,719
Remaining options, treasury stock method	96,571	94,572	76,773
Pro Forma Weighted Average Shares	6,308,126	6,304,158	6,327,234
Historical Net Income	$2,259,000	$1,546,000	$2,934,000
Interest on Subordinated Debt, Net of Income Taxes	166,000	125,000	92,000
Minority Interest in Net Loss of Subsidiaries	(117,000)	(28,000)	--
Pro Forma Net Income	$2,308,000	$1,643,000	$3,026,000
Pro Forma Net Income Per Share	$0.37	$0.26	$0.48

EXHIBIT 21.1

Subsidiaries of the Company:

UDT Sensors, Inc., California
Rapiscan Security Products (U.S.A.), Inc., California
Ferson Optics, Inc., California
Rapiscan Security Products Limited, United Kingdom
Opto Sensors (Singapore) Pte Ltd, Singapore
Opto Sensors (Malaysia) Sdn. Bhd., Malaysia
Advanced Micro Electronics AS, Norway

INDEPENDENT AUDITORS' CONSENT AND REPORT ON SCHEDULE

To the Board of Directors and Shareholders of
OSI Systems, Inc.

We consent to the use in this Registration Statement of OSI Systems, Inc. on Form S-1 of our report dated June 12, 1997, appearing in the Prospectus, which is a part of this Registration Statement, and to the references to us under the headings "Selected Consolidated Financial Data" and "Experts" in such Prospectus.

Our audits of financial statements referred to in our aforementioned report also included the financial statement schedule of OSI Systems, Inc., listed in Item 16. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

Los Angeles, California
June 12, 1997

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JUN-30-1997
JUL-01-1996
MAR-31-1997
1,612
0
15,450
0
15,472
35,969
5,654
0
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