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OSI Systems (OSIS): SEDENA Unwinds, DoJ Subpoenas Fly, Execs Wave Goodbye

We are short OSI Systems (“OSI”, “OSIS”, “the Company”), which sells electronic security, screening, and inspection systems. OSI has long been a stagnant business – from 2019 to 2024, revenues grew at an anemic 0.9% CAGR – excluding Mexico. Yet in 2024, OSI reported Mexico revenues grew from \$23 million to a whopping \$423 million, accounting for 154% of total growth. We believe this growth is largely an illusion.

OSI’s Mexican business is largely tied to the Company’s March 2023 contract with Mexico’s Ministry of Defense (“SEDENA”) to install 120+ vehicle and cargo screening systems at 21 border crossings. OSI described progress on the contract as “*outstanding*” as “*we continue to successfully execute.*” OSI’s reported financials suggest the same, as we estimate the Company has already recognized 81% of SEDENA product/installation revenues, implying that OSI has already largely shipped, installed, and begun commissioning the vast majority of systems.

Yet our research – including an extensive review of import authorization records, investigator visits to border crossings, satellite imagery, interviews of former employees, and analysis of local press – suggests that **OSI has fallen wildly behind on its obligations, owing to shipping, installation, and potential product-level issues. We believe that in turn, OSI has grossly mischaracterized its financial position by pulling forward \$162 million in revenues in order to paper over the contract’s underlying disarray.**

- Our review of publicly available records filed with Mexico’s Department of Energy (“SENER”) suggests that OSI has obtained import authorizations for just 77 of 124 systems (66%) contracted to SEDENA.
- Over the past 2 months, we dispatched investigators to the Mexican customs offices where OSI is meant to be installing screening systems. Our investigators found a mere 51 systems (44%) across these sites – many in various states of disrepair – and just 33 (28%) fully-operating systems in total. An overwhelming 73 of 124 systems (59%) appeared to be missing entirely.
- OSI’s SEDENA nightmare has been widely documented in local press, yet U.S. investors appear entirely in the dark. In January 2025, reporters alleged, “*most of the equipment has not been delivered*” and “*much of the equipment that was purchased is still in the process of being installed...*” In February 2025, reporters added that, “*the equipment was put into operation, but that it did not work and ended up stored, a condition that it remains in, to this day.*”
- OSI’s financials reveal SEDENA receivables of \$260 million, or 76% of cumulative revenues. Unbilled receivables – revenues recognized *in advance of OSI even billing customers* – have also ballooned to a glaring \$279 million. OSI management claims this is “*normal course*” for large contracts and merely a “*a timing issue*” as if the checks are in the mail. We don’t think it’s all that complicated. OSI isn’t getting paid for its reported revenues because the Company should have never recorded these revenues, because it hasn’t done the work.
- From 2006 to 2022, OSI was audited by Moss Adams. In 2022, Moss Adams flagged revenue recognition as a critical audit matter. In 2023, OSI replaced Moss Adams with Grant Thornton, who then also deemed Security segment contracts a critical audit matter in the Company’s 2023 annual report.

We believe that OSI now faces fallout as the SEDENA revenue “cookie jar” runs low. Moreover, former employees suggest that OSI has already utilized its 20% contract “buffer,” after which continued contract non-compliance is accompanied by “significant” financial penalties. OSI has promised investors that cash flow will inflect positively, but has continually backed away from these promises. We believe cash flow will continue to remain dismal amid both potential financial penalties and continued SEDENA non-compliance.

Second, we believe that OSI has once again come under intense DoJ scrutiny which the Company has downplayed through deliberately vague and misleading disclosures. We believe the DoJ is actively investigating not just one, but two separate cases of potential FCPA violations in which OSI is suspected of bribing foreign officials and/or bad actors to obtain major contracts. Fallout could be devastating.

- In February 2023, OSI received a DoJ subpoena which the Company downplayed as “*part of a DoJ case against a former employee...occurring before he was hired.*” That employee – George Edward Walther-Meade – had been indicted and imprisoned in February 2023 on charges of embezzlement, wire fraud, and money laundering that allegedly occurred through his employment at OSI competitor, Leidos.
- OSI hired Walther-Meade in December 2021, just three weeks after he was fired from Leidos.
- In October 2022 – while employed at OSI – Walther-Meade sued Leidos, alleging the company “*claimed ignorance*” of his activities in Mexico, including his “*familial relationship with certain Mexican contractors*” and his “*providing benefits to government leaders or agents of Mexico*” to secure contracts.
- Local press reports that Walther-Meade orchestrated the Company’s SEDENA contract. Moreover, OSI competitor Nucotech and a consortium of Mexican firms alleged bidding irregularities, adding that OSI failed to disclose Walther-Meade’s ongoing criminal investigation – and later indictment – at the time of the SEDENA award. Walther-Meade remained employed at OSI to March 2023, per his LinkedIn.
- In November 2023, Walther-Meade died by suicide while awaiting trial. Yet DoJ interest has only intensified. In February 2024, OSI received a second DoJ subpoena requesting documents pertaining to “*the Company’s business dealings in Mexico since 2020,*” suggesting that the DoJ has now expanded its probe into OSI’s Mexico operations.

Moreover, in September 2024, OSI received yet another DoJ subpoena which the Company described only as “*requesting records relating to certain entities in Honduras.*” Yet OSI has zero disclosed subsidiaries in Honduras and has never mentioned Honduras in its public filings or conference calls.

We believe that the DoJ probe pertains to potential FCPA violations in connection with OSI’s turnkey security screening contract at the Santo Tomas port in Guatemala. This port has been widely understood as under the effective control of Swiss businessman and former fugitive Jürg Widmer Probst. Aptly nicknamed “the King of Ports”, Probst and his affiliates have maintained control of Santo Tomas and other major ports through a network of shadowy entities in Panama, Guatemala, and Honduras.¹

Our research details not only these Honduran entities, but the laundry list of corruption allegations levied against Probst and his associates, including bribes to former Guatemalan President Otto Pérez Molina and VP Roxana Baldetti, both of whom were then found guilty of corruption. In 2016, Guatemalan prosecutors and the CICIG indicted Probst for “*cohecho activo*” – active bribery – and cited EMPORNAC contracts in particular. Guatemalan officials said of Probst that “*anyone who wanted a foothold in the maritime sector*” had to establish that foothold through Probst.

We further uncovered Probst’s indirect ties to the notorious Sinaloa cartel. In particular, Probst’s entities and associates are tied directly to former Guatemalan presidential candidate Mario Estrada Orellana, who in April 2019 was sentenced to 15 years in prison for a scheme to solicit Sinaloa cartel money to finance his election, in exchange for “*assisting the cartel in using Guatemalan ports and airports to export tons of cocaine into the U.S.*”

¹ Readers ought to safely assume that all of the allegations and charges made against Probst and his associates are false, misleading, entirely without merit, and that the accused have been fully cleared of such allegations.

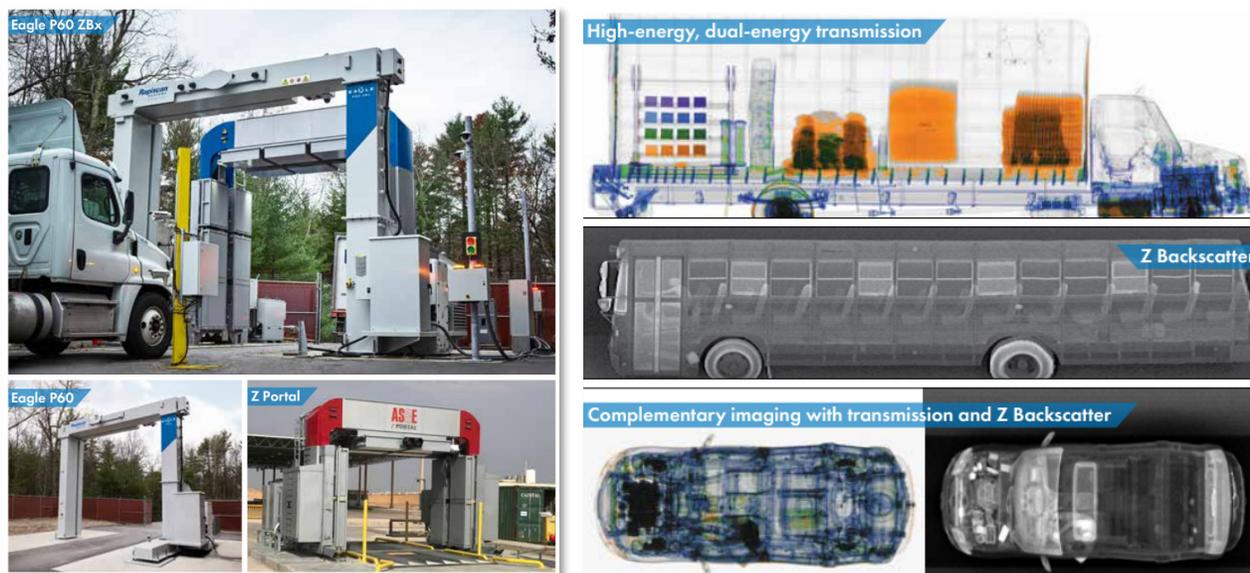
We think OSI ought to fully disclose the nature of the DoJ's apparent investigations into both Mexico and "*entities in Honduras*" given the hefty settlements that often accompany alleged FCPA violations. Recent examples include Petrobras (\$850 million), Albemarle (\$218 million), SAP (\$320 million), and Raytheon (\$950 million). Given OSI's apparent alleged ties to corrupt networks and cartel-affiliated entities, we believe the company remains a prime target for DOJ scrutiny – particularly under a Trump administration.

In May 2024, long-time Chairman and CEO Deepak Chopra announced his retirement by year-end 2024. In the same month, he set up a new 10b5-1 stock sale plan. In the past 2 years, Chopra has sold \$39.4 million in stock, and insiders have collectively sold \$70.0 million. We are short OSI and think shares are headed lower.

Introduction to OSI Systems

OSI Systems, Inc. describes itself as a vertically integrated designer and manufacturer of electronic security, screening, and inspection systems. The Company reports in three segments: Security (68% of 2024 revenues and an even greater portion of operating profits²), Optoelectronics and Manufacturing (21% of 2024 revenues), and Healthcare (11% of 2024 revenues).

The Security segment sells metal detectors, x-ray machines, and other screening and inspection systems used in environments such as airports, seaports, and border crossings. These systems are sold under the brand names of Rapiscan, American Science and Engineering (“AS&E”), and S2 Global, as [shown](#) below.



OSI sells its systems in two ways: traditional and turnkey. In a traditional sale, OSI sells and installs each system for ~\$2 million to \$9 million, depending on jurisdiction, size of the order, and civil works requirements, and then signs an accompanying maintenance and service agreement. OSI isn't a recurring revenue business, however – management estimates only 30% of revenues are “recurring” while 70% of revenues are “one-time” product/installation revenues.³ In turnkey projects, the Company owns and operates the systems, while equipment is retained on balance sheet.

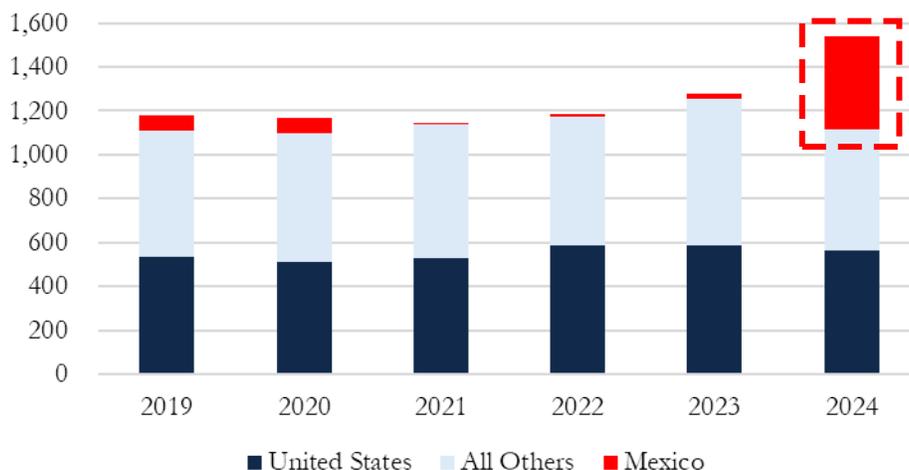
Historically, OSI has been a low- to no-growth business. From 2019 through 2024, the Company spent \$117 million on 16 acquisitions, yet Company-wide revenues grew a cumulative 0.4% over 5 years – until Mexico, that is.⁴ In 2024, OSI reported 20% overall revenue growth (+\$260 million), with Mexico revenues skyrocketing from \$23 million to \$423 million on two key contract wins, representing 154% of overall growth.

² Sell-side notes we reviewed suggested that the Security segment contributes ~77% of EBIT.

³ OSI's mix contrasts with companies such as Otis Worldwide [where](#) 63% of revenues and 90% of operating profits are generated in services, or GE Aerospace, [where](#) 70% of revenues are generated in services.

⁴ From 2019 to 2024, OSI spent \$117 million on 16 acquisitions, according to its annual reports. The Company insists in each annual disclosure that the acquisitions “were not material to our consolidated financial statements” (see page F-20 in the 2024 Form 10-K). It's unclear to us whether or not collectively these businesses – over many years – have contributed to financial results in any material way, or if OSI is simply acquiring these businesses for some other surely justified reason.

OSI Revenues by Geography (\$ millions)



- On January 17, 2023, OSI [announced](#) award of “over \$200 million” for cargo and vehicle inspection systems – including both mobile and fixed systems – to an international customer, revealed to be to Mexico’s Navy, known as SEMAR. OSI disclosed that the Company began recognizing revenues on this contract in fiscal Q4 2023 (ended June 30, 2023).
- On March 20, 2023, OSI [announced](#) an award of over \$600 million from Mexico’s Ministry of Defense (“SEDENA”) for cargo an vehicle inspection systems and related services, along several Mexican customs border checkpoints. OSI disclosed that the Company began recognizing revenues on this contract in fiscal Q2 2024 (ended December 31, 2023).

CON BASE EN LAS EVALUACIONES TÉCNICA Y ECONÓMICA, SE DETERMINÓ ADJUDICAR, AL LICITANTE SIGUIENTE, EN VIRTUD DE HABER CUMPLIDO TÉCNICA Y ECONÓMICAMENTE CON LO SOLICITADO POR ESTA SECRETARÍA COMO SIGUE:

PTDAS	EMPRESAS	MONTO ADJUDICADO	No. CONTRATO
1, 3, 4 y 5.	Rapiscan Systems, S. de R.L. de C.V. conjuntamente con las empresas Rapiscan Systems, Limited; American Science and Engineering, Inc. y Rapiscan Systems, Inc.	612,125,885.64 USD.	D.G.ADMÓN. SAE-036/F/ANAM/2023

OSI Has Already Recognized 81% of Total SEDENA Product/Installation Revenues, Implying Shipments and Installations Have Been Largely Completed

We believe OSI has dramatically misrepresented its progress with SEDENA both in its written and financial statements. The following summarizes our views, based upon Company disclosures, management commentary, interviews with former employees, and local media reports. For the sake of brevity, readers can find our full calculations and supporting evidence in Appendix A.

- OSI's \$612 million contract consists of \$424 million in product/installation revenues, net of VAT and maintenance/services.⁵
- OSI has already recognized \$343 million in SEDENA revenues, or 81% of this total.⁶
- OSI recognizes revenue upon milestones including system shipment (25% of total), throughout installation (another 50% of total), and upon commissioning (final 25% of total).⁷
- OSI's contract with SEDENA calls for the installation and commissioning of 120 to 150 systems.⁸

Taking these together, we'd thus expect that OSI has already shipped and installed the vast majority – if not all – of the systems due to SEDENA, and is simply waiting upon final customer acceptance in order to recognize the remaining revenues and collect payment.

Indeed, OSI management has continually characterized its progress on the SEDENA contract as “*outstanding*.”

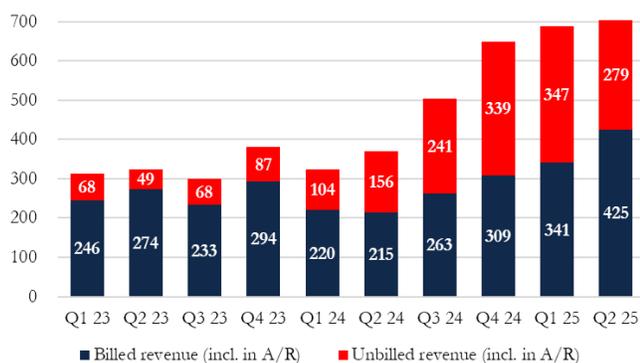
“*These contracts have been **great. We're just starting to scale them up** right now. So it's providing tremendous visibility.*” – CFO Edrick, Morgan Stanley TMT Conference, March 4, 2024

“*Our team is actually **doing an outstanding job** on that [SEDENA]... So as we start getting those annual recurring revenues from service post warranty, then that will be nicely margin-accretive to us as well. But **it's been a very nice contract** for us.*” – CFO Edrick, Q3 2024 earnings call, April 25, 2024

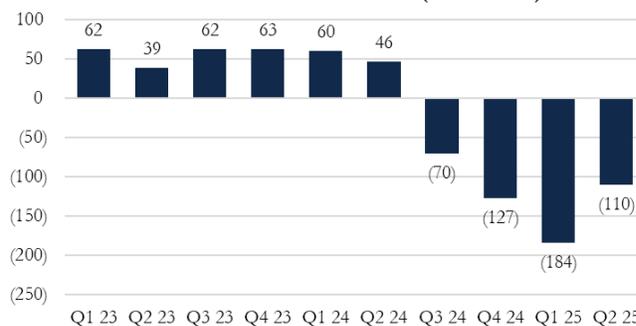
“*During Q4, **we continued to successfully execute** on our major program with Mexico's Department of National Defense, known as SEDENA, which is expected to generate more than \$500 million in total revenue over the length of the contract.*” – Former CEO Chopra, Q4 2024 earnings call, August 22, 2024

Moreover, OSI's SEDENA revenues largely haven't translated to cash. As of Q2 2025, we estimate SEDENA receivables of \$260 million, or 76% of cumulative SEDENA revenues. Further, unbilled receivables have exploded from less than \$100 million to \$279 million – **not only is OSI not collecting, but not even billing customers for a meaningful portion of reported revenues.**⁹ As such, free cash flow has turned deeply negative.

OSI: Accounts Receivable - Billed and Unbilled



OSI: LTM Free Cash Flow (\$ millions)



⁵ Per Company disclosures, commentary, and sell-side commentary.

⁶ Per Company filings.

⁷ Per our conversations with three former OSI employees, and our review of Company disclosures.

⁸ Per local press and corroborated by our conversation with OSI management.

⁹ The Company does not disclose billed and unbilled revenues/receivables by customer.

OSI management has waved away ballooning receivables by claiming this dynamic is “*normal course for large government contracts*” and “*just timing related*” due to “*certain project milestones, which are highly influenced by the customers’ timeline and sign off.*”¹⁰ This is a departure from the Company’s earlier claims, however.

- On the Company’s Q3 2023 earnings call in April 2023, CFO Edrick claimed that cash flow would be “*very rich*” as OSI “*begins to **deliver** the product*”, clearly implying that OSI is paid by customers upon delivery rather than subsequent to commissioning.
- On the Company’s Q1 2024 earnings call in October 2023, Edrick claimed that “*We do expect to generate **nice free cash flow this year**, but the real strength in the free cash flow will begin in the subsequent fiscal year...*” In reality, OSI would go on to generate **negative** \$127 million in free cash flow in fiscal 2024.

OSI has left the SEDENA contract entirely unaddressed, despite the Company’s own statements suggesting underlying delays. Our research lays them bare.

We Believe OSI Pulled Forward Revenues to Mask Underlying SEDENA Complications. We Found Many Non-Operating Systems, Others Missing Entirely

We believe that OSI has improperly pulled forward revenues from SEDENA well in advance of product shipments, installations, and commissioning. Our view is based on our conversations with former employees, review of import licenses, investigators’ visits to border crossings, satellite imagery, and local press.

OSI Has Received Import Authorization for Just 62% of SEDENA Systems

OSI’s scanning systems are produced in the U.S. and U.K., and utilize ionizing radiation which requires the Company to obtain [import licenses](#) from Mexico’s Secretariat of Energy (“SENER”) prior to importation. Once obtained, these licenses are filed in Mexico’s [public transparency database](#), and disclose the exact make, model, and quantity of each system that the Company is requesting to import.

For example, see that in October 2023, Rapiscan [obtained a license](#) to import ten (10) CarView InLane (i.e., light vehicle) screening systems, which would remain valid until April 5, 2024.

¹⁰ See CFO Edrick on Q1 2025 earnings call, October 24, 2024. Further, OSI discloses in its 2024 Form 10-K that the Company “recognizes revenue when performance obligations...are satisfied... revenue from the sale of products is recognized upon shipment or delivery when control of the product transfers to the customer, depending on the terms of each sale, and when collection is probable... [and] contracts with customers can contain multiple performance obligations...”

 SENER <small>SECRETARÍA DE ENERGÍA</small>		 CNSNS <small>COMISIÓN NACIONAL DE SEGURIDAD NUCLEAR Y SASEGURADIAS</small>	No. 172070
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"2023 Año de Francisco Villa, El revolucionario del pueblo".

Número: A00.200/2044/2023
Exp: A00.1S.04/2458/2023 **INEM:** 3965
Asunto: Se autoriza importación
Referencia: RSM-AYT-051-2023 y RSM-AYT-052-2023

México, D.F., a 5 de Octubre de 2023.

<p>C. TITULAR DE LA ADUANA DE NUEVO LAREDO, OCAMPO NO. 101, ESQ. 15 DE JUNIO, PLATAFORMA FISCAL SECTOR CENTRO NUEVO LAREDO, TAMAULIPAS, C.P. 88000 – MÉXICO.</p>	<p>C. TITULAR DE LA ADUANA DE CIUDAD JUÁREZ. PUENTE LIBRE DE CÓRDOBA S/N, ÁREA DE CHAMIZAL, CD. JUÁREZ, CHIHUAHUA. C.P. 32310, MÉXICO.</p>
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Con fundamento en lo dispuesto en los Artículos 29 y 50, Fracción IX de la Ley Reglamentaria del Artículo 27 Constitucional en Materia Nuclear y en base al dictamen técnico correspondiente, se autoriza la importación de:

EQUIPO GENERADOR DE RADIACIÓN IONIZANTE

<p>10 EQUIPOS MARCA: RAPISCAN SYSTEMS / AS&E MODELO: CarView InLane</p>	<p>Voltaje Máximo: 225 kV Corriente Máxima: 10.9 mA</p>
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La importación de que se trata se efectuará a través de la Aduana de: **NUEVO LAREDO Y/O CIUDAD JUÁREZ.**

El destinatario de los materiales indicados es: **RAPISCAN SYSTEMS MÉXICO, S. DE R.L. DE C.V.**

Esta autorización es válida hasta el día **5 de Abril del 2024** y se otorga sin perjuicio de la que corresponda a otras autoridades en el ámbito de su competencia.

**DIRECTORA GENERAL ADJUNTA DE
SEGURIDAD RADIOLÓGICA**


ING. ANTONIA CASTAÑEDA MUCIÑO

Recall that the SEDENA contract calls for approximately 54 truck/cargo systems and 70 light vehicle systems, or 124 systems in total. We reviewed all licenses that Rapiscan obtained since the March 2023 contract began.¹¹ Our review found licenses for just 51 CarView InLane systems and 26 Z-Portal systems, or just 77 of the 124 (62%) systems due to SEDENA.¹²

¹¹ Through latest data available, November 2024.

¹² Rapiscan has acquired other licenses, but we include only those that appear tied to the SEDENA contract. For example, Rapiscan obtained a license to import Orion 920DX systems, but these systems are used to scan small items, e.g., backpacks, not vehicles. We also Company-favorably assume that 100% of the 77 systems pertain to the SEDENA contract, even as it is possible that some systems relate to the SEMAR contract.

Date Issued	Expiry	Brand	Model	#	Source Link
09/03/24	03/03/25	RAPISCAN SYSTEMS / AS&E	CarView InLane	1	LIC1655_2024.PDF
05/30/24	11/30/24	RAPISCAN SYSTEMS / AS&E	Z Portal	2	LIC1009_2024.PDF
05/27/24	11/27/24	RAPISCAN SYSTEMS / AS&E	CarView InLane	12	LIC0983_2024.PDF
04/16/24	10/16/24	RAPISCAN SYSTEMS / AS&E	Z Portal	5	LIC0701_2024.PDF
02/29/24	08/29/24	RAPISCAN SYSTEMS / AS&E	Z Portal	6	LIC0370_2024.PDF
02/27/24	08/27/24	RAPISCAN SYSTEMS / AS&E	CarView InLane	20	LIC0369_2024.PDF
12/06/23	06/06/24	RAPISCAN SYSTEMS / AS&E	Z Portal	2	LIC2488_2023.PDF
11/13/23	05/13/24	RAPISCAN SYSTEMS / AS&E	Z Portal	2	LIC2288_2023.PDF
11/13/23	05/13/24	RAPISCAN SYSTEMS / AS&E	CarView InLane	4	LIC2287_2023.PDF
10/20/23	04/20/24	RAPISCAN SYSTEMS / AS&E	Z Portal	3	LIC2144_2023.PDF
10/20/23	04/20/24	RAPISCAN SYSTEMS / AS&E	CarView InLane	4	LIC2143_2023.PDF
10/06/23	04/06/24	RAPISCAN SYSTEMS / AS&E	Z Portal	6	LIC2060_2023.PDF
10/05/23	04/05/24	RAPISCAN SYSTEMS / AS&E	CarView InLane	10	LIC2044_2023.PDF
TOTAL				77	

Thus, even if OSI were recognizing 100% of product/installation revenues upon system shipment, it remains unclear to us how the Company could possibly have recognized such lofty SEDENA revenues.

- OSI claims that the Company only *begins* to recognize revenues upon shipment and continues to recognize revenues upon certain other milestones, which former employees told us includes installation and commissioning.
- Yet the Company appears to have *already recognized* 80% of SEDENA product/installation revenues, without even having obtained the right to ship 38% of its systems into the country.¹³ Critically, this authorization doesn't guarantee shipment, it only allows it – we have no guarantee that all 77 of these systems were shipped.
- Finally, consider that the Company itself told us that SEDENA systems held ASPs in a range of \$3 to \$4 million. Thus, even if 100% of each of the 77 authorized imports were fully recognized, this implies revenues of just \$308 million – again well below the \$343 million implied from disclosures. **OSI's claims don't add up, even under the most generous assumptions.**

We Dispatched Investigators to the Border. They Found Less than HALF of Systems Delivered, Just 27% of Systems Commissioned, 59% of Systems Missing Entirely

From late January to March 2025, we dispatched investigators to the border crossings where OSI's systems are meant to be installed. Investigators found just 51 systems (41% of total) had been deployed, and just 33 systems (28% of total) appeared to be fully commissioned/operational.¹⁴

¹³ We believe these licenses are an appropriate proxy for shipments as OSI's own disclosures and our conversations with former employees confirm that the Company produces these systems in the U.S. and the U.K.

¹⁴ In 6 instances, our investigators were either unable to determine a system count with confidence, or unable to visit the site entirely. In these instances, we supplemented our work with satellite imagery, and in each instance, Company-favorably assumed that the scanners had been shipped, installed, and commissioned, regardless of whether or not we could confirm such.

Company-Favorable	Import Records	Visible on Site	Fully Commissioned	Total to be Installed
Light Vehicles	51	37	22	70
% of total	73%	53%	31%	
Cargo	26	14	11	54
% of total	48%	26%	20%	
TOTAL	77	51	33	124
% of total	62%	41%	27%	

We provide several examples of our border findings in the pages that follow. For the sake of brevity, interested readers can find more information regarding each of the crossings in Appendix A.

- Investigators visited **Mexicali** in late January 2025 and found three (3) light vehicle systems that appeared to be at least partially installed. Yet traffic was directed around the scanners towards a manual screening process. Our review of satellite imagery from February 2024 shows the ground prepared for the systems.



Source: Culper Investigator Visit, Google Earth as of February 2024

- At crossings in **Reynosa**, including both the Hidalgo-Reynosa and Anzalduas Bridges, investigators found seven (7) light vehicle systems and two (2) cargo systems, yet none of the systems were commissioned – they were instead blocked off with ropes, caution tape, or barriers, while cables were unplugged and equipment was loose on the ground.



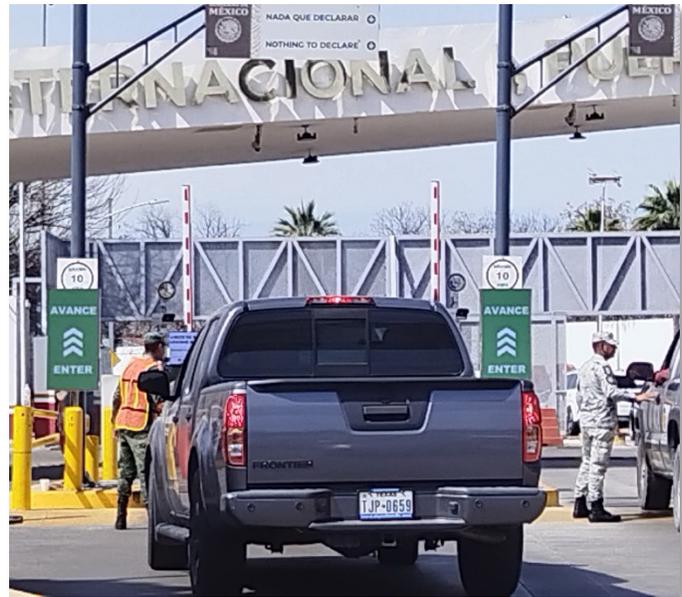
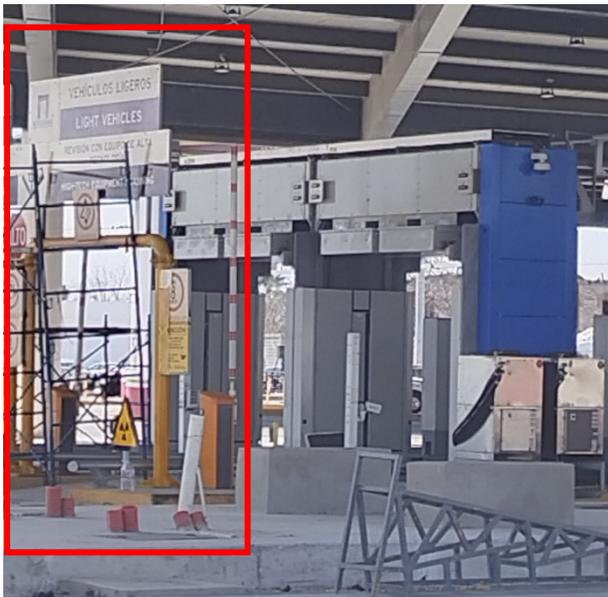


- At **Ciudad Camargo**, investigators found that a scanning lane appeared to be partially constructed, similar to other crossings, yet upon a closer approach, the actual Rapiscan system was missing from the lane entirely. Note that in our own analysis of scanner counts, we – in what we view as being incredibly generous to OSI – count this as an installed, but not yet operating scanner.¹⁵

¹⁵ We suspect this could also be an instance of a scanner that was torn down after being found inoperable, according to local press as we detail later on in this report.



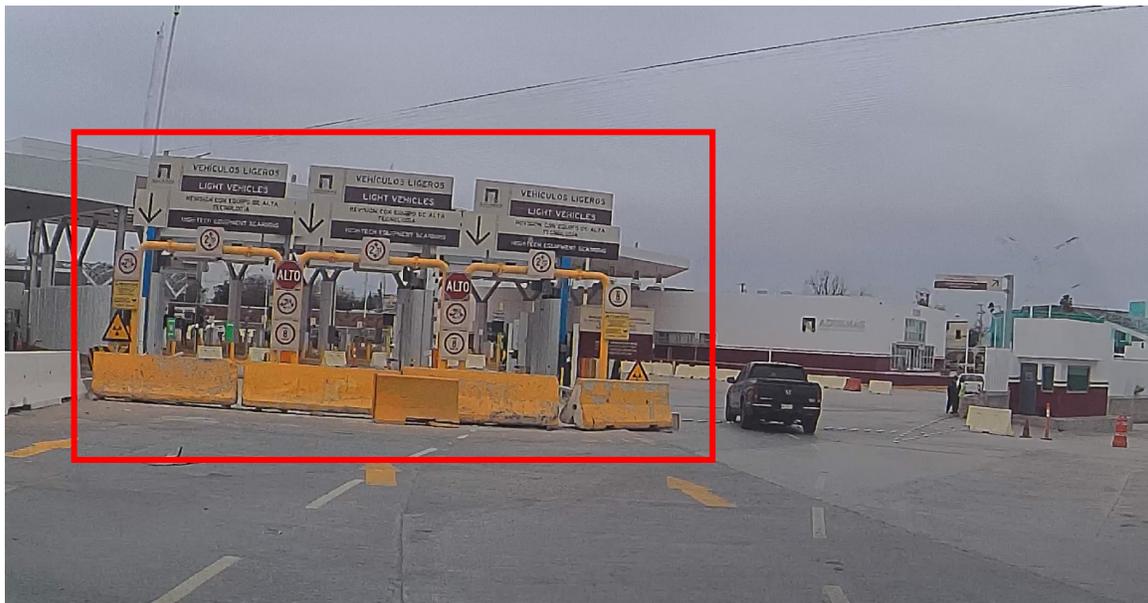
- At **Piedras Negras**, investigators found two (2) light vehicle systems, yet each appeared to be under construction, as evident by scaffolding and vehicle traffic directed instead to manual inspections.



- At **Miguel Aleman**, investigators noted the presence of (1) light vehicle system and one (1) truck/cargo system, but the systems were coned off and traffic was directed again to a manual screening process.



- Investigators found a similar situation at **Nuevo Laredo**, where three (3) light vehicle systems were at least partially constructed, but traffic was directed around the systems to a manual screening process.



- At **Matamoros**, investigators found four (4) systems, consisting of two (2) light vehicle and two (2) cargo systems. The light vehicle systems were coned off, however. Investigators also noted unplugged cables, suggesting that the systems were non-operational.



OSI's SEDENA Problems Widely Reported by Mexican Press, But U.S. Investors Kept in the Dark

OSI's delays in shipping, installing, and commissioning systems for SEDENA have been widely documented by Mexican media outlets. Yet the issue remains entirely unaddressed by OSI management, who instead tell U.S. investors that cash collection problems are "normal course" and that "we continue to successfully execute."

In August 2023, leading Mexican newspaper EL Universal [reported](#) supply chain delays caused by legal proceedings as OSI competitor Nuctech systems challenged the contract award. Reporters added that Rapiscan had reportedly already agreed to extend the contract to up to 29 months.

*"In reality, what could end up ruining the multi-million dollar contract for the American company Rapiscan, which was publicly supported by Ambassador Ken Salazar, is the failure to meet delivery and installation times... **Sources close to Rapiscan say that the company has already 'agreed' with Sedena to extend the terms of the contract, to deliver the x-ray arches in a period that could reach up to 29 months;** the problem is that, although the law provides for an extension of the term, **the maximum limit allowed is an increase of up to 20% of the original time**... if it gives in to the request of the supplier firm, the problem would be passed on to the next administration..."*

We spoke with a former Rapiscan employee who corroborated to us that Mexico allows for a "buffer" of 20% of either contract cost or time, but OSI had likely already exceeded this 20% allowance, and would thus accrue penalties if the contract faced further delays.

*"All contracts have a 20% allowance either in value or in time. They give you 20% additional time without penalties. Or if you're above budget they'll go higher, it's allowed in the law. **I believe Rapiscan has used that already... If they need to alter the contract further, they would pay penalties.**"*

– Former Rapiscan Employee, February 2025

Tellingly, OSI added an entirely new risk disclosure to its Form 10-K in 2023, adding – despite having [operated](#) in Mexico for 20+ years – that "there are inherent risks associated with our operations in Mexico" including "**significant penalties in the event of our late delivery or non-performance**" and potential termination of the program altogether.

There are inherent risks associated with operations in Mexico.

We are currently in the process of fulfilling agreements to provide cargo and vehicle inspection systems and related services to government customers in Mexico. These agreements are significant to our business, financial condition and results of operations. The following are certain risks to operating in Mexico that could adversely impact our operations and have a material adverse effect on our business, financial condition and results of operations: (i) ability of key suppliers and subcontractors to fulfill obligations on a timely basis; (ii) cooperation of various departments of the Mexican government in issuing permits, and inspecting our operations on a timely basis; (iii) receipt of payments in a timely manner; (iv) significant penalties in the event of our late delivery or non-performance; (v) termination or change in scope of program at the election of the Mexican government; (vi) regional political and economic instability; (vii) high rate of crime in Mexico where we conduct operations; and (viii) change in the value of the Mexican peso.

In January 2025, reporters at Sonora Presente published an update that “most of the equipment has not been delivered” and “much of the equipment that was purchased is still in the process of being installed...”¹⁶

Finally, under the slogan of avoiding the risk of alleged Chinese sabotage or espionage at strategic points for the economy and national security, the supplier designated in March 2023 was the American company Rapiscan Systems, which committed to installing its technology in the year before the end of López Obrador's administration. The big problem now is that this objective has not been met and most of the equipment has not been delivered.

Sheinbaum has acknowledged that much of the equipment that was purchased is still in the process of being installed, so the vulnerability at customs points that was discussed during López Obrador's time is not an issue that has been corrected.

The contracts to maintain 39 obsolete devices from the Chinese company Nuctech were useless, since there are no spare parts because the technology is old; while the integration of non-intrusive images has not been effective either: since there are no images to integrate or store because the company Rapiscan did not fully install the inspection infrastructure resulting from the contracts it was awarded, there are no images of the equipment to view. In other words, a multimillion-dollar contract was signed and delivered, which is not being exercised.

Source: *Sonora Presente*, January 8, 2025

Finally on February 17, 2025 – less than a month ago – journalist Roberto Rock [added](#) to the conversation, citing unconfirmed reports that while systems were put into operation, they “*did not work and ended up stored*” – aligning with our findings of barricaded, roped off, coned off, or otherwise non-operating systems.

*“[We] were unable to determine whether the equipment presumably purchased with such significant expenditures was actually installed. **Unconfirmed reports claim that the equipment was put into operation, but that it did not work and ended up stored, a condition that it remains in, to this day.**”*

¹⁶ OSI's reported pledge to install the machines “*in the year prior to the end of López Obrador's administration...*” aligns with what we were told from former OSI employees regarding installation timing (i.e., 11 to 18 months post-signing), implying a February to September 2024 completion date. Former President Lopez Obrador was succeeded by Sheinbaum on October 1, 2024.

Financial Implications: OSI's Financials are Unreliable, Penalties and Playing "Catch Up" Could Continue to Haunt Cash Flows

We think that OSI's financial statements should not be relied upon, the Company is potentially racking up penalties by the day as the SEDENA contract remains behind schedule, the SEDENA "cookie jar" has run low, and cash flows will remain dismal as OSI completes the work for which it has already recognized revenues.

Based on our review of import authorizations, site visits, and conversations with former employees, we estimate that OSI ought to have recognized a *maximum* of \$181 million from SEDENA, implying that OSI has pulled forward \$162 million in revenues.

<i>Culper Est. Revenue Recognition</i>	Count of	Systems as %	% of Revenue	Product/ Install	Implied
System Status	Systems	of Total	at Stage	Revenues	Contribution
Not yet shipped	47	38%	0%	\$424	\$0
Shipped, but not yet installed/on-site	26	21%	25%	\$424	\$22
Installed, not yet commissioned	18	15%	75%	\$424	\$46
Fully commissioned/accepted	33	27%	100%	\$424	\$113
Total	124	100%			\$181
Revenues Recognized through Q2 2025 (Culper Est.)					\$343
Pull Forward					\$162

From 2006 to 2023, OSI employed Moss Adams LLP as auditor. In 2022, Moss Adams flagged revenue recognition as a critical audit matter.

Revenue recognition - Security Division

As described in Note 1 to the consolidated financial statements, the Company's contracts with customers in its Security division may contain multiple performance obligations and frequently include an obligation to deliver an equipment product. Revenue is recognized when control of each distinct performance obligation is transferred to the customer. Revenues for the Security division were \$663.2 million for the year ended June 30, 2022.

The Company's revenue recognition for the Security division requires subjective considerations, particularly related to the identification and determination of the timing of revenue recognition for delivery of products, due to contractual terms and conditions that required judgment to determine when control of the product was deemed to be transferred to the customer. **We identified the auditing of the transfer of control of equipment products to be a critical audit matter.**

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of controls relating to revenue occurrence, including controls over the timing of revenue recognition; and
- Performing substantive tests over the timing and occurrence of revenue recognition, which included, among other procedures, reading the executed contract or purchase order to understand the contract, evaluating the contract-specific terms and the reasonableness of the Company's judgments about the transfer of control of the performance obligation, and obtaining evidence that the transfer of control had occurred for the revenue recognized.

/s/ Moss Adams LLP

In January 2023, OSI replaced Moss Adams with Grant Thornton, who then also deemed Security segment contracts a critical audit matter in the Company's 2023 Form 10-K:

Determination of standalone selling price - Security Segment Product Revenue

As described in Note 1 to the consolidated financial statements, the Company's revenue contracts in the security segment may include multiple performance obligations, which are accounted for separately when they are distinct. The Company derives revenues in the security segment mainly from sales of products, installation, project management and training services. The Company allocates the transaction price to the distinct performance obligations on a relative stand-alone selling price basis and recognizes revenue when control is transferred. Product revenues are recognized at the point in time when product has been delivered.

Auditing the Company's product revenue stand-alone selling price in the security segment was complex due to the subjectivity of the assumptions that were used in developing the stand-alone selling price of distinct performance obligations. Evaluating the appropriateness of these assumptions requires extensive audit effort due to the complexity of these contracts and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

Investors now rely on OSI's assurances that cash flow is just around the corner, underpinned by the view that OSI merely needs to collect on *completed work*. For example, one sell-side analyst values the Company based on their expectations of a "*latent cash flow surge*" while another analyst calls for deleveraging "*principally by collecting cash on its Mexico work.*" We believe, however, that OSI's cash generation will continue to remain poor, as problems are not just contained to collections, but in *completing the contract.*¹⁷

To that end, we find it telling that OSI has continued to walk back its cash flow claims.

- On the Company's Q1 2025 earnings call, Edrick claimed that "*operating cash flow could be quite significant in the second half of fiscal '25 and potentially even stronger in fiscal '26.*" It was on this call that Edrick also departed from his earlier implications that OSI is paid on delivery, and instead claimed that OSI is paid "*subsequent to certain project milestones.*"
- Yet on the Company's most recent Q2 2025 call in January, Edrick removed the claim that OSI would generate "*even stronger*" cash flows in 2026, and stated only that "*We continue to anticipate operating cash flow could be significant in the second half of fiscal '25.*"

OSI Appears to be Under an Active DoJ Investigation in Mexico. We Believe the DoJ is Interested in Potential FCPA (i.e., Bribery) Violations

To add insult to injury, OSI appears to have recently become subject to an active DoJ investigation into its activities in Mexico. In February 2023, OSI received a DoJ subpoena, which the Company initially downplayed as "*part of a DoJ case against a former employee...occurring before he was hired.*"

Legal Proceedings

In February 2023, one of our subsidiaries received a subpoena from the U.S. Department of Justice ("DoJ"). The subpoena was issued as part of a DoJ case against a former employee of an OSI Systems subsidiary for embezzlement and other conduct occurring before he was hired by our subsidiary and while he was employed by another company in the United States and Mexico. The subpoena requests documents and records relating to, among other things, the former employee and the Company's business dealings in Mexico since 2020. In February 2024, we received a follow-up subpoena requesting the same categories of documents but extending the relevant time period through to the date of the second subpoena. We have produced documents in response to these subpoenas and intend to cooperate with any further subpoenas or other requests in connection with this or any ensuing investigation. In September 2024, we received a subpoena requesting records relating to certain entities in Honduras. Consistent with past practice, we intend to cooperate with requests arising from this most recent subpoena.

¹⁷ OSI might suggest that it has already seen cash outflows in inventory builds ahead of system deployments, but days inventory have declined over the past 12 months and are flat to down over the past 3 years (see Appendix C).

The employee referenced is George Edward Walther-Meade, who joined OSI in December 2021 – just three weeks after he was fired from top OSI competitor, Leidos.



Senior Vice President, Strategic Accounts

S2 Global · Full-time

Dec 2021 - Mar 2023 · 1 yr 4 mos

San Diego Metropolitan Area · Remote

S2 Global, a wholly owned subsidiary of OSI Systems, Inc. provides turn-key screening solutions to protect critical infrastructure, ports, airports, government, and private sector facilities, and includes detection technol ...see more



Leidos

14 yrs 11 mos

- **Vice-President, Division Manager**

Full-time

2019 - Nov 2021 · 2 yrs 11 mos

Greater San Diego Area

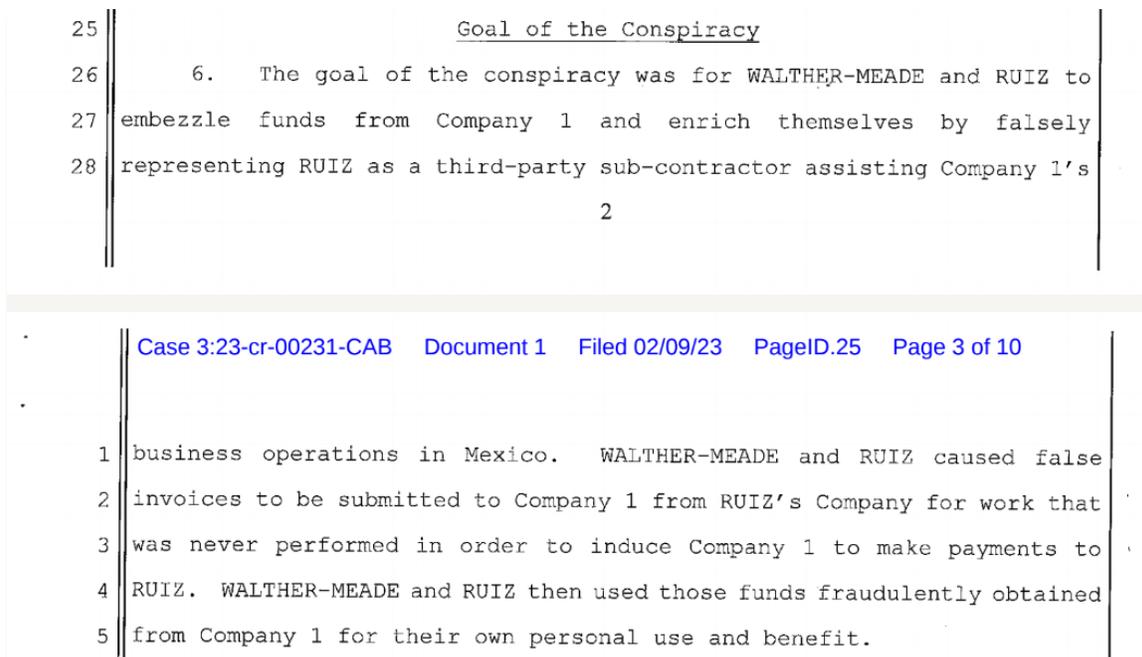
Source: [LinkedIn](#)

In October 2022, Walther-Meade filed suit against Leidos on ten counts, including wrongful termination and breach of implied contract. In the complaint, Walther-Meade effectively alleges that Leidos fired him as a scapegoat for potentially nefarious activities. The complaint alleges that Leidos hired Walther-Meade to procure business in Mexico, then “*claimed ignorance*” of Walther-Meade’s activities in Mexico, including his “*familial relationship with certain Mexican contractors...*” and his “*providing benefits to government leaders or agents of Mexico for purposes of procuring the International Contract...*”

4	Opportunity of impropriety in business practices in Latin American. Despite Defendant’s
5	knowledge and approval of Plaintiff’s conduct and employment of persons in Mexico for
6	purposes of furthering the International Contract and securing the International Opportunities,
7	Defendant claimed ignorance and asserted unsupported and contradictory arguments Plaintiff
8	was involved in nefarious activities by nepotism.
9	31. Specifically, and incredulously, Defendant claimed Plaintiff had a familial relationship with
10	certain Mexican contractors involved in the International Contract and pursuit of the
11	International Opportunities, that such relationship – despite Defendant’s knowledge and
12	approvals of employment of such persons – was evidence that Plaintiff and Mexican officials
13	and employees were involved in misconduct.
14	32. Defendant asserted to Plaintiff that because Plaintiff was of Latin-American descent and doing
15	business in Mexico, Plaintiff was involved in immoral and reprehensible conduct in the
16	development and implementation of the International Contract and pursuit of the International
17	Opportunities. Without supporting evidence, Defendant accused Plaintiff of providing benefits
18	to government leaders or agents of Mexico for purposes of procuring the International Contract
19	and securing the International Opportunities.

Source: [Walther-Meade v. Leidos, Inc. Complaint](#)

In February 2023, Walther-Meade was indicted and imprisoned on charges of embezzlement, wire fraud, and money laundering. The DoJ alleged that while at Leidos, Walther-Meade created and submitted fake invoices for work that was never performed, then used the invoice proceeds for “aesthetic dental services” and jewelry.



Source: [United States of America vs. George Walther-Meade](#)

We find it concerning that OSI would hire and continue to employ Walther-Meade under these circumstances. Further, OSI's Mexican Navy contract was [reportedly](#) orchestrated by Walther-Meade.

As alluded to by local press above, OSI competitor Nuctech and a consortium of Mexican firms [disputed](#) the original contract award, alleging “*serious anomalies presented in the bidding process and in the corresponding ruling.*” Critically, the group alleged that **OSI had not properly disclosed that Walther-Meade, who had reportedly orchestrated the deal, was under criminal investigation, then subject to criminal proceedings.** A judge eventually [refused](#) to suspend the contract.

In November 2023, Walther-Meade committed suicide as he awaited trial. **One might expect the DoJ matter to end with Walther-Meade's death, but it hasn't – it's only escalated.**

In OSI's Form 10-Q filed April 30, 2024, the Company updated earlier disclosures to add that the Company received a second subpoena in February 2024 – three months after Walther-Meade's death. This second subpoena requested “*the same categories of documents*” which included documents pertaining to “*the Company's business dealings in Mexico*” but “*extending the relevant time period through to the date of the second subpoena.*” Given the timing of both Walther-Meade's employment at OSI and his death, **we believe the only logical explanation is that the DOJ has expanded its investigation into OSI's dealings in Mexico, and is likely now taking a critical eye to potential FCPA violations surrounding the SEDENA contract.**

Newly Disclosed September 2024 Subpoena Suggests DoJ Now ALSO Investigating OSI's Turnkey Contract at Santo Tomas Port. We Suspect Further FCPA Problems

We believe that OSI is also now party to an active DOJ investigation into the Company's turnkey contract for security screening at the Santo Tomas port in Guatemala.

OSI disclosed in its Q1 2025 Form 10-Q filed in October 2024 that in September 2024, the Company received a DOJ subpoena, *"requesting records relating to certain entities in Honduras."* Yet OSI has zero disclosed subsidiaries in Honduras, nor has the Company ever mentioned Honduras in its public filings or conference calls. Thus, it seems to us either that: OSI is harboring undisclosed Honduran subsidiaries, *or* that OSI has dealings with *third-party entities in Honduras* that have now caught the interest of the DoJ. Our research suggests the latter.

We believe the investigation pertains to dealings between OSI and affiliates of former fugitive Jürg Widmer Probst, nicknamed "El Rey de Los Puertos" ("the King of the Ports") for his history of alleged corruption across the shipping and transportation industries. Our research details how Probst appears to maintain significant influence over the Santo Tomas port, where OSI was awarded a turnkey screening contract in 2019.¹⁸ **We believe OSI is likely party to an investigation of potential FCPA (i.e., bribery) violations in connection with its Santo Tomas Port contract.**

We challenge OSI to disclose the names of the "entities in Honduras." Investors deserve full disclosure.

The Santo Tomas Port Deal: 10-Year Turnkey Contract Awarded by EMPORNAC

In January 2019, OSI [announced](#) a 10-year, fee-per-scan turnkey security screening contract at the Port of Santo Tomas de Castilla in Guatemala. OSI has not disclosed this contract's contribution to revenues or profits, but the Company does disclose \$62 million in revenues from "other Americas" in 2024, and further that turnkey contract margins are *"nicely north of overall corporate average."*¹⁹ OSI management also confirmed the attractiveness of turnkey contracts, telling us that, *"we would absolutely do turnkeys every time based on the unit economics."*



¹⁸ Readers ought to assume that all of the allegations and charges made by third parties against Probst and his associates – as we reference herein – are false, misleading, and entirely without merit, and that the accused have been fully cleared of such allegations.

¹⁹ Fiscal Q1 2024 earnings call.

The Santo Tomas deal was awarded to OSI subsidiary S2 Global by EMPORNAC, the Guatemalan state-owned enterprise overseeing the port.

Contest details

NOG:	8256284
Description:	PUBLIC TENDER No. 18-2018 CONTRACTING OF NON-INTRUSIVE INSPECTION SERVICES FOR CONTAINERS, VANS AND CARGO BY MEANS OF AN X-RAY SYSTEM WITH DUAL ENERGY LINEAR ACCELERATOR TECHNOLOGY AT THE SANTO TOMAS DE CASTILLA NATIONAL PORT COMPANY".
Mode:	Public Tender (Art. 17 LCE)
Category:	• Other types of goods or services
Type of contest:	Public
Entity:	SANTO TOMAS DE CASTILLA NATIONAL PORT COMPANY -EMPORNAC-
Type of Entity:	Public Companies (National and Municipal)
Purchasing unit:	SANTO TOMAS DE CASTILLA PORT COMPANY

Source: *Guatemala State Contracting*

Allegations of a Rigged Bidding Process Were Filed Long Before OSI's DoJ Subpoena

Publicly filed complaints (“non-conformities”) filed upon the award – and long before OSI’s September 2024 DoJ subpoena – alleged that the process was effectively rigged in OSI’s favor.

- Several nonconformities ([here](#), [here](#), [here](#), and [here](#)) alleged that EMPORNAC’s requirement of US certification automatically ruled out local competitors, in direct violation of Guatemalan law. Another [nonconformity](#) claimed that there was “*very short time for foreign companies to register or identify potential provider of specific services to the object of the tender*” which limited the competition to exactly one operator: OSI’s Rapiscan.
- Another [nonconformity](#) filed by Bofica S.A. claimed that Bofica had already been awarded the contract through a prior award from the Ministry of Public Finance.
- Another [nonconformity](#) echoed the USA certification requirement complaints and added that OSI’s bid was *more expensive* than the only other competing bid, as shown below.

NIT or country	Name or company name	Surety Entity	Total amount
67569544	S2 GLOBAL SCREENING SOLUTIONS SOCIEDAD ANONIMA	SEGUROS EL ROBLE, S.A.	488,370,000.00
51194309	PORT SECURITY INTERNATIONAL GUATEMALA, SOCIEDAD ANÓNIMA	SEGUROS PRIVANZA, S.A.	456,690,000.00

We Believe the DoJ’s Honduras Probe Centers on OSI’s Ties to Jurg Widmer Probst, Notorious for Alleged Corruption

While EMPORNAC offers contracts and concessions for varying port duties, it is well understood that Guatemala’s two ports – Santo Tomas (on the Atlantic) and Puerto Quetzal (on the Pacific) – have been dominated for two decades by Swiss businessman Jurg Widmer Probst. Probst’s dominance, in turn, has been allegedly a function of widespread corruption – including at the highest level – with [alleged kickbacks](#) to former Guatemalan President Otto Pérez Molina and VP Roxana Baldetti, both of whom were then [found guilty](#) of corruption.

We believe Probst and his cronies maintain continued control of the Santo Tomas port not only via entities in Guatemala, but also in Honduras. These include Pahame, [EA Holdings SA](#), [Swisstec Honduras SA](#) de Capital Variable, and [Intergrupo](#) (collectively “Interport”).

We believe the DOJ’s scrutiny of OSI’s apparent dealings with “*entities in Honduras*” points to the Probst network – a deeply troubling connection given OSI’s apparent ongoing DoJ investigation in Mexico, the multiple non-conformities alleged of the Santo Tomas contract award, and Probst’s extensive history of alleged corruption.

We Suspect DOJ’s Interest in “Entities In Honduras” Link Directly to Probst

We uncovered multiple Probst-linked entities in Honduras, including [EA Holdings](#), [Swisstec Honduras](#), and [Intergrupo](#).

- **EA Holdings** says its services are especially, but not limited to, “*maritime services, including towing and vessel assistance, port services, including mooring, rental and operation of machinery and port equipment...*” EA’s partners / listed representatives include Probst, both Carlos and Luis Garcia Pilon – brothers themselves, and brothers-in-law of Probst – and Manuel Roberto Sisniega.

EA HOLDINGS SOCIEDAD ANONIMA

Current Version
★★★★☆

General Information
Partners (6)
Documents (0)
Former Partners (0)
Previous Versions (0)

<p>JURG WIDMER PROBST (0%)</p> <p>Temporary162230 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>	<p>Carlos Antonio Garcia Pilon (0%)</p> <p>Temporary162232 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>
<p>Carlos Antonio Garcia Pilon (0%)</p> <p>Temporary162231 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>	<p>Luis Ernesto Garcia Pilon (0%)</p> <p>Temporary162233 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>
<p>Carlos Antonio Garcia Pilon (0%)</p> <p>Temporary162228 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>	<p>MANUEL ROBERTO SISNIEGA (0%)</p> <p>Temporary162229 Honduras,</p> <p>Partner in other companies: He is not a partner in other companies</p>

- We see a similar pattern at **Intergrupo SA** and at **Swisstec Honduras**. Intergrupo lists its services as including “*shipping agency services, maritime services, including towing and ship assistance...*” Its partners include Probst, Carlos Antonio and Luis Ernesto Garcia Pilon, and Sisniega.

Commercial Company	
▶ Registration Number:	SPS-0000039986 - 00000
▶ Chamber of Commerce:	Chamber of Commerce and Industry of Cortés
▶ Type of Company:	Joint stock company
▶ Company Name:	INTERGROUP JOINT STOCK COMPANY
▶ Trade Name:	INTERGROUP JOINT STOCK COMPANY
▶ Other Names:	—
▶ Date of Incorporation:	—
▶ Primary Activity:	THE PURPOSE OF THE COMPANY SHALL BE THE PROVISION OF ANY KIND OF SERVICE, ESPECIALLY BUT NOT LIMITED TO: SHIPPING AGENCY SERVICES, MARITIME SERVICES, INCLUDING TOWING AND SHIP ASSISTANCE; PORT SERVICES, INCLUDING STEVING SERVICES, RENTAL AND OPERATION OF MACHINERY AND EQUIPMENT P - THE PURPOSE OF THE COMPANY SHALL BE THE PROVISION OF ANY KIND OF SERVICE, ESPECIALLY BUT NOT LIMITED TO: SHIPPING AGENCY SERVICES, MARITIME SERVICES, INCLUDING TOWING AND SHIP ASSISTANCE; PORT SERVICES, INCLUDING STEVING SERVICES, RENTAL AND OPERATION OF MACHINERY AND EQUIPMENT P
▶ Location:	Does not specify, San Pedro Sula, Cortés

Source: [Honduras Registry](#)

- Swisstec lists its services as including “*any service in sea ports: import and rental of machinery, stewardship, shipping agency, cargo transport.*” Swisstec lists both Probst and Luis Ernesto Garcia Pilon.

SWISSTEC HONDURAS SOCIEDAD ANONIMA DE CAPITAL VARIABLE	
Versión Actual	
★★★★☆	
<p>Información General</p> <p>Socios (2)</p> <p>Documentos (0)</p> <p>Ex-Socios (0)</p> <p>Versiones Anteriores (0)</p>	<div style="border: 1px solid #ccc; padding: 5px; margin-bottom: 5px;"> <p>LUIS ERNESTO GARCIA PILON (0%)</p> <p>Temporal155749 Honduras,</p> <p>Socio en otras empresas: No es socio en otras empresas</p> </div> <div style="border: 1px solid #ccc; padding: 5px;"> <p>JUERG WIDMER PROBST (0%)</p> <p>Temporal155748 Honduras,</p> <p>Socio en otras empresas: No es socio en otras empresas</p> </div>

Source: [Honduras Registry](#)

This cadre of partners has a long history of allegedly problematic dealings and relationships. Probst’s dealings span 20+ years and detailing the full scope of allegations that have been made against Probst is far beyond the scope of this report. Yet we do attempt to summarize some recent highlights.

- In 2016, Guatemalan prosecutors, in tandem with the UN’s CICIG, revealed the “*Caso Coopatacion del Estado*” – Guatemala’s largest-ever crackdown on state-level corruption. Numerous charges detailed how a network of bad actors siphoned state funds and bribed their way into contracts. As part of this case, Probst was [indicted](#) for “*cohecho activo*” – active bribery – citing EMPORNAC contracts in particular. Guatemalan officials would [later say](#) of Probst that “*anyone who wanted a foothold in the maritime sector*” had to do establish that foothold through his network. Probst fled to Switzerland where he avoided prosecution for 7 years.

	FIRMA DEL CONTRATO 09/07/2022	VIGENCIA DEL CONTRATO 10 AÑOS AMPLIABLES A OTROS 10 AÑOS	MONTO DEL CONTRATO Q614 MILLONES
	NOMBRE CONTRATO	Servicios de carga y descarga de buques por medio de grúas portuarias del muelle del Puerto de Santo Tomás de Castilla.	
	EMPRESA	Caribe Gru (Grupo Interport)	
	INSTITUCIÓN PÚBLICA	Empresa Portuaria Nacional Santo Tomás de Castilla (EMPORNAC)	
	PROPIETARIOS	Jürg Widmer Probst	
	SEÑALAMIENTOS	Cooptación del Estado. MP-CICIG. Acusado de pagar de comisiones ilegales a las autoridades portuarias de Santo Tomás de Castilla y Puerto Quetzal, así como al presidente, Otto Pérez, y la vicepresidenta, Roxana Baldetti, a cambio de que estos mantuvieran sus contratos públicos. Permaneció prófugo hasta que logró ser excluido del proceso judicial en su contra.	
MONTO TOTAL ADJUDICADO DURANTE EL GOBIERNO DE GIAMMATTEI		Q614 MILLONES	

- In early 2017, the Dutch financial crimes unit (“FIOD”) [raided](#) the Damen Shipyards in connection with a bribery investigation. Dutch media [reported](#) that the raid “possibly relates to corruption in Honduras” and further linked Probst to Dutch firms in South America.
- In May 2019, Probst was sued in California for allegedly attempting to launder money through a Vapiano franchise – a Florida and DC-based restaurant chain. Yet when he was denied a franchise license, Probst allegedly sabotaged the group by organizing employee strikes and interfering with management. The suit described him as follows.

4 *The Widmer Enterprise Launderers Illicit Bribery Proceeds*
5 25. J. Widmer, known as “The King of the Ports” in Guatemala, is a key
6 figure in an international bribery scandal. Specifically, in coordination with
7 government officials, J. Widmer, through his various companies including but
8 not limited to Novacom S.A., exchanged discounted tariff costs for bribes from
9 importers. In April 2015, however, following a UN-assisted investigation,
10 evidence of this network of corruption was disclosed by international prosecutors
11 resulting in a scandal that reached the highest levels of the Guatemalan
12 government. Although J. Widmer was suspected of being a major participant in
13 this illicit bribery conspiracy, J. Widmer managed to escape Guatemala before he
14 could be prosecuted, and moved to Switzerland where he remains a fugitive from
15 justice according to Guatemalan media.¹ While Switzerland has extradition
16 treaties, it has frequently taken a conservative approach to extradition requests
17 and refuses to extradite its own nationals. Thus, Switzerland has unfortunately
18 become somewhat of a known haven for some of the world’s wealthiest financial
19 criminals, as well as for other major international criminals who manage to
20 obtain Swiss citizenship.²
21 _____
22 ¹ See *The reign of Jurg Widmer remains intact in the ports*, El Periodico,
23 February 11, 2018, available at <https://elperiodico.com.gt/investigacion/2018/02/11/el-reinado-de-jurg-widmer-sigue-intacto-en-los-puertos/>

Source: *May 2019 Complaint*

- In 2023, a rural judge in Guatemala lifted Probst’s longstanding arrest warrant. Guatemalan prosecutors promptly appealed. In September 2023, a new judge ruled that there was insufficient evidence to proceed to trial. Guatemala’s special prosecutor again announced plans to appeal, and the case remains in limbo, as best we can tell.
- Media reports suggest that Probst and Garcia Pilon – also a member of various Probst-linked firms – were previously “*befriended*” by attorney Juan Pablo Carrasco de Groote, who allegedly enabled bribes to Guatemalan government officials “*in order to win \$400 million worth of road construction contracts between 2013 and 2015.*”

A Guatemalan star lawyer who boasts impeccable contacts with the US Government has fled to Miami after being implicated in a multi-million-dollar bribery scandal.

Juan Pablo Carrasco de Groote, once regarded as the go-to lawyer for international companies operating in Guatemala thanks to his enviable role as president of the American Chamber of Commerce, is now a fugitive holed up in the USA after an arrest warrant was issued earlier this year.

The warrant accuses Carrasco of obstruction of justice, conspiracy and abuse of authority after it emerged that the lawyer had allegedly helped disgraced Brazilian construction company Odebrecht pay bribes to the Guatemalan Government.

Carrasco stands accused of enabling Odebrecht to pay nearly \$18 million in bribes to the Guatemalan government in order to win \$400 million worth of road construction contracts between 2013 and 2015.

But Machado is not the only alleged gangster to have rubbed shoulders with Carrasco. According to reports, in 2014 Carrasco befriended Jurg Widmer Probst, a Swiss-born businessman known as "the King of the Ports" on account of his monopoly of the Puerto Santo Tomas de Castilla, Guatemala's Atlantic port, via his company Interport Group. Carrasco is also reportedly close to Widmer's brother-in-law, Luis Garcia, previously a legal representative of Interport and now Director General at Comercializadora Pahame, which currently controls Puerto Santo Tomas de Castilla.

According to numerous reports, Widmer bribed officials in the government of former president Otto Perez Molina to win around \$35 million worth of contracts. One of Interport's subsidiaries that controlled cranes at the port, Servicios Bayside, won contracts worth \$26 million in 2011 under the Molina Government, 2454% more than the previous year. Another Interport company, Caribe Gru, which was represented by Carrasco, also won lucrative and allegedly overinflated Government contracts, according to reports.

Widmer fled to his native Switzerland after an arrest warrant was issued in 2016 alleging bribery of Molina and former Vice President Roxana Baldetti in a case dubbed "State Cooptation".

Earlier this year, in a surprising ruling, Widmer's arrest warrant was cancelled by Rudy Bautista, a little-known Guatemalan judge who presides over a small rural court. Guatemalan prosecutors are currently probing the court's decision and have challenged Judge Bautista's ruling.

- For his part, Manuel Roberto Sisniega, previously established Aerocomercial S.A., which listed a registered address in a shopping mall and a sole representative – José Ángel Reyes Morales. Aerocomercial S.A. owned the helicopter used by former Guatemalan Presidential Candidate Mario Estrada Orellana. In April 2019, Orellana was arrested and sentenced to 15 years in prison for a scheme to *"solicit Sinaloa Cartel money to finance a corrupt scheme to elect [him] president of Guatemala"* **in exchange for promising "to assist the cartel in using Guatemalan ports and airports to export tons of cocaine into the U.S."**

Wednesday, April 17, 2019

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For Immediate Release

U.S. Attorney's Office, Southern District of New York

Mario Amilcar Estrada Orellana Tried to Solicit Campaign Funding from Drug Cartels in Exchange for Guatemalan Government Support for Cocaine Shipments to the United States

Geoffrey S. Berman, the United States Attorney for the Southern District of New York, and Adolphus P. Wright, Special Agent in Charge of the Miami Division of the U.S. Drug Enforcement Administration ("DEA"), announced today that Guatemalan presidential candidate MARIO AMILCAR ESTRADA ORELLANA ("ESTRADA") and JUAN PABLO GONZALEZ MAYORGA ("GONZALEZ") have been charged in Manhattan federal court with conspiring to import cocaine into the United States and a related weapons offense of conspiring to use and possess machineguns. ESTRADA and GONZALEZ were arrested earlier today in Miami, Florida, and will appear tomorrow before United States Magistrate Judge Jonathan Goodman in Miami federal court.

Manhattan U.S. Attorney Geoffrey S. Berman said: "As alleged, Estrada and Gonzalez conspired to solicit Sinaloa Cartel money to finance a corrupt scheme to elect Estrada president of Guatemala. In return, the two allegedly promised to assist the cartel in using Guatemalan ports and airports to export tons of cocaine into the U.S. As further alleged, Estrada and Gonzalez attempted to arrange the assassinations of political rivals. Thanks to the DEA, Estrada stands no chance of election in Guatemala, but he and Gonzalez face justice in the United States."

- Sisniega also served as General Counsel for Tigo Guatemala. In June 2021, the CICIG accused former Vice President of Guatemala Baldetti of accepting bribes from Tigo in exchange for allowing Tigo to effectively corner the telecom market. In April 2022, Tigo received a DOJ subpoena requesting information regarding its business in Guatemala and with Guatemalan government officials. In October 2022, the former Economics Minister of Guatemala pled guilty to transferring bribes from Tigo to certain Guatemalan officials. He was sentenced to one year in prison. In May 2023, Tigo received a second subpoena, and the investigation appears to be ongoing according to latest disclosures.

- Luis Ernesto Garcia Pilon is also [listed](#) as a director and President of Interport's Panama holding company. Carlos Antonio Garcia Pilon is [listed](#) as legal representative for Caribe Gru and Servicios Bayside, both Guatemalan firms within Probst's network. Guatemalan records also indicate that Luis Ernesto Garcia Pilon is a representative of Guatemala's Interport Group SA.

Detalle del Proveedor - INTERPORT GROUP, SOCIEDAD ANONIMA

Identificación (Datos recibidos de la SAT el: 19.feb..2020 02:43:06)
 CUI:
 Nombre o razón social: INTERPORT GROUP, SOCIEDAD ANONIMA
 Tipo de organización: SOCIEDAD ANÓNIMA
 Número de Identificación Tributaria (NIT): 47027193
 Nombre comercial 1: GRUPO INTERPORT
 Nombre comercial 2: INTERPORT GROUP
 Estado del proveedor (Obtenido desde RGAE): Sociedades (NO INSCRITO)
 Adjudicado o No adjudicado: NO ADJUDICADO
 Participa o no en Contrato Abierto: NO PARTICIPA (no tiene productos en el catálogo)
 Con o Sin contraseña: CON CONTRASEÑA

Representantes Legales	Datos Adicionales	Domicilio Fiscal
Representantes legales		
	Proveedor	Plazo de Nombramiento
Representante Legal 1	(26645939) FLORES, TEJEDA, ELSA, ESPERANZA	18/05/2009
Representante Legal 2	(5481198) GARCIA, PILON, LUIS, ERNESTO	31/05/2021

- Luis Ernesto Garcia Pilon is also Director of Comercializadora Pahame, where 2023 press reports [claim](#) Pahame "currently controls Puerto Santo Tomás de Castilla."

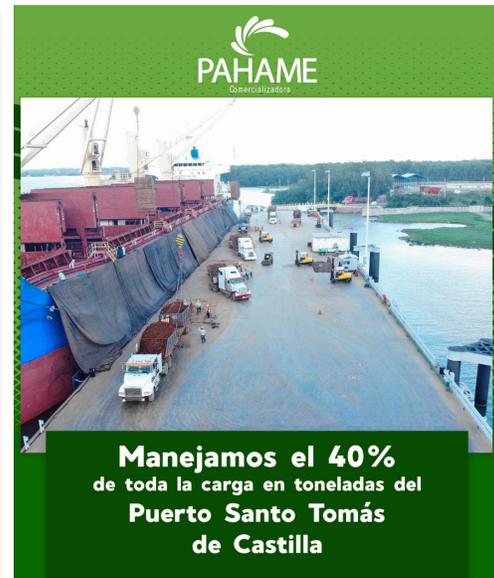
EMPORNAC, Pahame and Santo Tomas: Undeniable Entanglements

Probst maintains no official affiliation with Pahame, historically [insisting](#) that Pahame and Probst are independent. Yet our research suggests EMPORNAC and Pahame are intimately linked with one another and with Probst, raising concerns about their independence and of OSI's potential dealings with both groups.

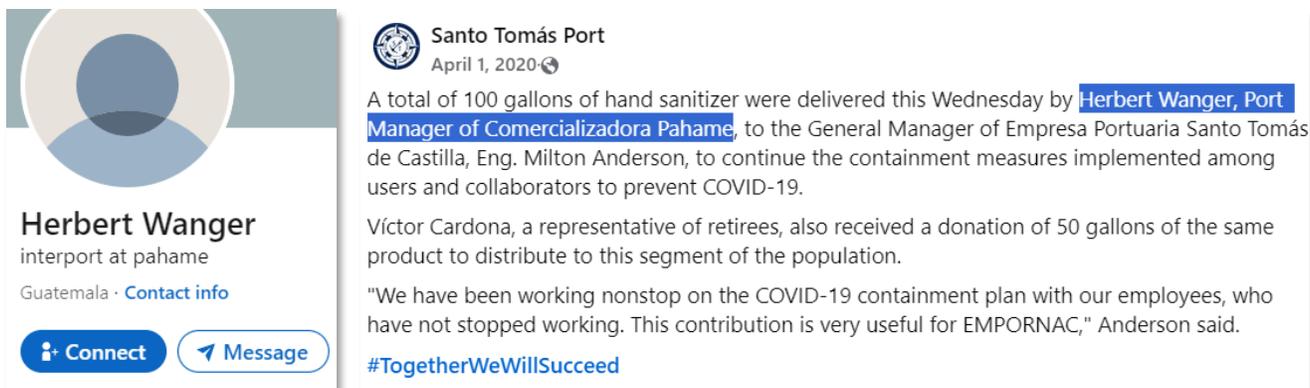
- In 2020, EMPORNAC's [former Audit Director](#) left to join Pahame.



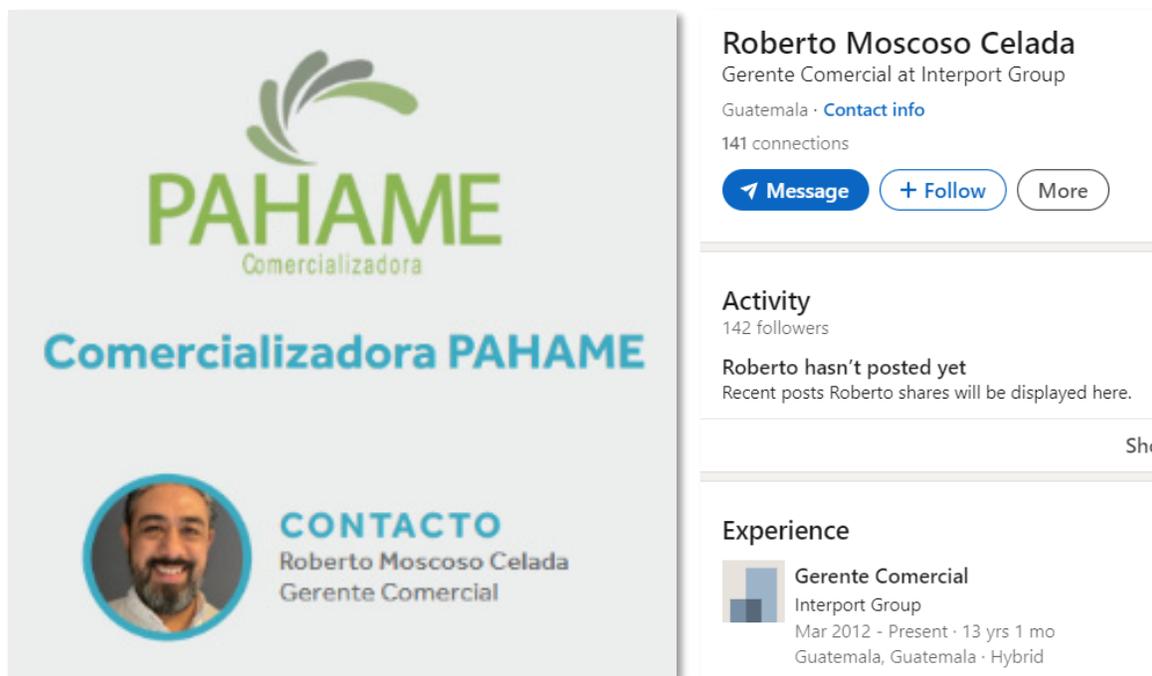
- In 2021, Pahame [referred to itself](#) as EMPORNAC's "most important customer" responsible for 40% of cargo shipped into the port.



- According to a [Facebook post](#), Herbert Wanger is "Port Manager of Pahame." Yet on Wanger's LinkedIn profile, he lists both Pahame and Interport.



- Interport's administrative assistant, Maily Lopez, has only posted twice on LinkedIn. Both were [re-posts](#) from Pahame.
- Finally, [Pahame Business Manager](#), Roberto Moscoso Celada, states on his own [LinkedIn profile](#) that he works for Interport.



- In 2023, an [investigative journal](#) found that the sole administrator of a Guatemalan entity named Kaize was also a lawyer of Interport, but the entity's address traced back to Pahame. The journal claimed that Pahame is "*part of the Interport Group.*"

Potential FCPA Reckoning Holds 9-Figure Precedents

We think OSI ought to fully disclose the nature of the DoJ's apparent investigations into both Mexico and "*entities in Honduras*" given the hefty settlements that often accompany alleged FCPA violations.

- In September 2018, Petrobras [settled](#) FCPA charges for more than **\$850 million**. The charges alleged that Petrobras "*facilitated the payment of hundreds of millions of dollars in bribes to Brazilian politicians and political parties and then cooked the books to conceal the bribe payments from investors and regulators...*"
- In September 2023, Albemarle [settled](#) FCPA charges with the DoJ for **\$218 million**, and [another](#) \$103 million to the SEC, for alleged "*bribes to obtain sales of refinery catalysts to public-sector oil refineries in Vietnam, India, and Indonesia and to private-sector oil refineries in India.*"
- In January 2024, SAP [settled](#) DoJ FCPA charges for **\$220 million, with another \$100 million SEC settlement**, after being charged with alleged "*bribery schemes in South Africa, Malawi, Kenya, Tanzania, Ghana, Indonesia, and Azerbaijan.*"
- In October 2024, Raytheon [settled](#) FCPA and [ITAR](#) charges with both the DoJ and SEC for **\$950 million**. Charges alleged "*a systematic and deliberate conspiracy that knowingly and willfully violated U.S. fraud and export laws*" by "*engaging in a scheme to bribe a government official in Qatar.*"

Insiders Sold Millions Both Outside of Sale Plans, and Lower than Today's Prices

OSI's long-time Chairman and CEO Deepak Chopra now looks to be distancing himself from the Company.

- On May 3, 2024, OSI [announced](#) that Chopra would retire as CEO by the end of calendar 2024.
- On May 15, 2024, Chopra [sold](#) \$5.6 million in stock at an average price of \$139.75, below today's prices.
- On May 29, 2024, Chopra established a 10b5-1 sale plan. His prior plan was [adopted](#) in March 2023.
- Since then, Chopra has sold \$19.9 million in OSIS shares both **inside and outside of** that plan.

Sale Date	Reported	Shares	Price	Total	Remaining	Type of Sale
9/16/2024	9/17/2024	20,000	\$144.92	\$2,898,400	479,033	10b5-1
11/11/2024	11/13/2024	35,000	\$153.68	\$5,378,650	424,323	10b5-1, open market
12/12/2024	12/13/2024	20,000	\$187.66	\$3,753,200	409,323	open market
2/3/2025	2/5/2025	40,000	\$195.91	\$7,836,200	369,478	10b5-1, open market
				\$19,866,450		

In total, insiders have sold \$83.7 million in stock over the past 3 years, and \$40.8 million in the past year alone. We're following their lead.

Appendix A: SEDENA Contract Supporting Calculations

According to [Mexican media reports](#), OSI's SEDENA border contract calls for the installation of 124 to 146 scanners, inclusive of fifty-four (54) Z-Portal (i.e., cargo/truck) systems and seventy (70) CarView InLane (i.e., light vehicle) systems across 21 border crossings.²⁰ Though the original contract appears to be under seal, we asked OSI management to confirm a system count. They refused to answer directly, but corroborated the media reports.

OSI Management: *"I can't get into the number of units for security reasons. But cargo systems tend to be in the multi-million dollar range, from \$2 to \$7 million dollars..."*

Culper Research: *"We read that it's somewhere between 120 and 150 units. Is that roughly accurate?"*

OSI Management: *"Probably, that's the number to have in mind. If you just work it backwards from \$3 to \$4 million ticket per product, yeah, you'll get there... It's not just a couple dozen."²¹*

Of \$612 million in total contract value, OSI has guided investors to consider 16% for VAT, or net contract value of \$514 million, which includes revenues from both the sale and installation of the units themselves (i.e., "production/installation") and the subsequent maintenance and service of those units. Based on conversations with former OSI employees and the sell-side, we estimate maintenance and services are 15% to 20% of the net contract value.²² As such, we estimate that OSI ought to recognize a total of \$424 million in product/installation revenues throughout the entire life of the SEDENA contract.

Culper Est. SEDENA Contract (\$ millions USD)	
Contract Value (gross)	\$612
VAT (%)	16%
Contract value (net of VAT)	\$514
Product/installation (%)	83%
Maintenance/services (%)	17.5%
Product/installation (\$)	\$424
Culper Est. recognized thru Q2 2025	\$343
Percentage of revenue recognized	81%

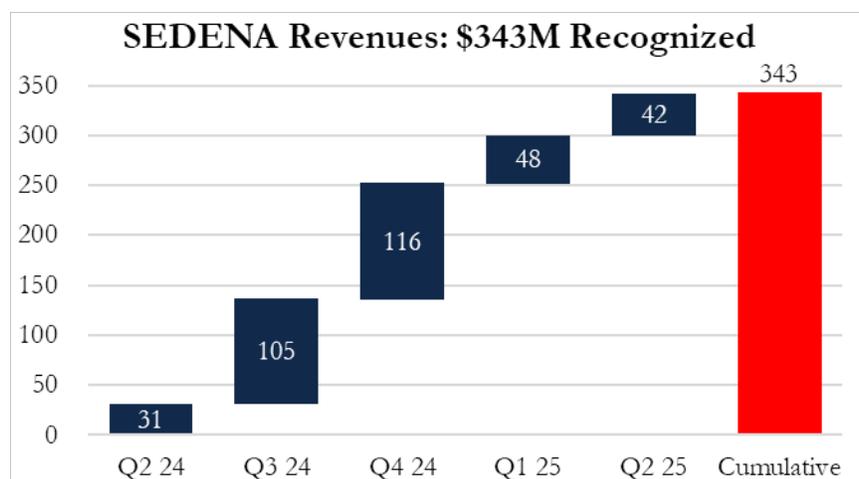
OSI also discloses contributions from its 10% customers, on both a quarterly and annual basis. Using these disclosures, we derive **SEDENA has contributed \$343 million in revenues through Q2 2025** (ending December 31, 2024), or 81% of the total product/installation revenues expected over the entire life of the contract.²³

²⁰ 19 border crossings on the North (i.e., with the U.S.) and two on the South (Guatemala and Belize).

²¹ OSI's offered range of \$3 to \$4 million in product/install revenues per units implies a range of 106 to 141 systems.

²² One former OSI salesperson told us, "25% for cost of maintenance... Could go as low as 20% or 15%, but that would tell you how much they're getting in terms of service. 24/7 service is 20% of the cost." One sell-side note suggests "...85% products and 15% services..."

²³ OSI has an additional \$100 million contract with SEDENA for train inspections, but OSI management claims (see former CEO Chopra on the August 2024 call) that revenues for that contract are "expected to commence in mid-fiscal 2025." As such, we are confident that the SEDENA revenues owe entirely to the \$612 million border security contract.



OSI recognizes revenue based “upon shipment or delivery when control of the product transfers to the customer...” and can include “multiple performance obligations such as civil works to prepare a site for equipment installation...” such as that which is included in the Company’s SEDENA contract.²⁴ Our conversations with multiple former OSI employees suggest that the Company recognizes approximately 25% of product/installation revenues upon shipment of the product, another 50% throughout installation of the product, and the final 25% upon commissioning or customer acceptance.

“Each milestone has its own percentage. Shipped, installed, and commissioned. You can expect that when they hit the ground and it’s installed, you could get to 70% realized.” – Former OSI Executive/Director #1

“...down payment in advance up to 20% of the total contract. When they deliver the fully accepted system, probably [an incremental] 50-60%, then the end is whenever all the services are coming alongside... In order to recognize full revenue, they have to get full acceptance of those systems.” – Former OSI Executive/Director #2

“There’s a payment schedule. It depends, but typically 25% at the time of order. 25% upon delivery, then 50% balance, net 30 on the date of substantial completion.” – Former OSI Executive/Director #3

²⁴ Fiscal 2024 Form 10-K, page 40. OSI’s CarView InLane and Z-Portal systems both require civil works; the equipment is not mobile; it is installed on-site.

Appendix B: 21 Border Crossing Locations

#	Border Crossing / Customs Location	Light Vehicle (visible)	Light Vehicle (operating)	Cargo/Truck (visible)	Cargo/Truck (operating)	Source
1	Tijuana, Baja California (San Ysidro/Otay)	8	2	2	2	investigators confirmed
2	Tecate, Baja California	1	1	0	0	investigators confirmed
3	Mexicali, Baja California (Calexico ports)	3	0	1	0	investigators confirmed
4	San Luis Río Colorado, Sonora	1	1	0	0	Company-favorable assumption
5	Sonoyta, Sonora (Lukeville)	2	2	0	0	investigators confirmed
6	Naco, Sonora	1	1	0	0	Company-favorable assumption
7	Agua Prieta, Sonora (Douglas)	2	2	1	1	Company-favorable assumption
8	Nogales, Sonora (Mariposa & DeConcini)	0	0	0	0	investigators confirmed
9	Puerto Palomas, Chihuahua (Columbus)	1	1	0	0	investigators confirmed
10	Ciudad Juárez, Chihuahua (El Paso ports)	0	0	0	0	investigators confirmed
11	Ojinaga, Chihuahua (Presidio)	1	1	1	1	Company-favorable assumption
12	Ciudad Acuña, Coahuila (Del Rio)	2	2	1	1	investigators confirmed
13	Piedras Negras, Coahuila (Eagle Pass)	2	0	2	0	investigators confirmed
14	Colombia, Nuevo León (Laredo-Colombia)	2	2	1	1	Company-favorable assumption
15	Nuevo Laredo, Tamaulipas (Laredo bridges)	4	1	0	0	investigators confirmed
16	Ciudad Miguel Alemán, Tamaulipas (Roma)	1	1	1	1	investigators confirmed
17	Ciudad Camargo, Tamaulipas (Rio Grande City)	1	0	0	0	investigators confirmed
18	Reynosa (both sides)	7	0	2	0	investigators confirmed
19	Matamoros, Tamaulipas (Brownsville ports)	2	0	2	2	investigators confirmed
20	Ciudad Hidalgo, Chiapas (Guatemala border)	2	2	2	2	investigators confirmed
21	Subteniente López, Quintana Roo (Belize border)	1	1	1	1	Company-favorable assumption
Total		44	20	17	12	

Appendix C: OSIS Inventory Days

