

## MEMORANDUM

**To:** File

**From:** Andrew Green  
Counsel to Commissioner Kara Stein  
U.S. Securities and Exchange Commission

**Date:** January 16, 2015

**Re:** Discussion with Bill Hambrecht of W.R. Hambrecht + Co.

On December 22, 2014, Andrew Green, counsel to Commissioner Stein, met with Mr. Bill Hambrecht of W.R. Hambrecht + Co. Among the topics discussed were the Commission's Proposed Rule Amendments for Small and Additional Issues Exemptions Under Section 3(b) of the Securities Act, commonly known as "Regulation A+." Materials discussed are attached.

# Spectra-Physics, Inc.



**Capital Stock**  
**(\$ $33\frac{1}{3}$  par value)**

**THESE SHARES INVOLVE A HIGH DEGREE OF RISK  
AND ARE OFFERED AS A SPECULATION**

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

Prior to this offering there has been no public market for the Company's capital stock. Accordingly, the offering price has been established by agreement among the Company and the Underwriters.

	<b>Price to Public</b>	<b>Underwriting Discounts, Commissions and Expenses<sup>①</sup></b>	<b>Proceeds to Company<sup>②</sup></b>
Per Share .....	\$16.25	\$1.60	\$14.65
Total .....	\$812,500	\$80,000	\$732,500

① Includes \$65,000 (\$1.30 per share) cash commission and \$15,000 (\$.30 per share) cash for estimated fees of the Underwriters' counsel to be paid by the Company. Additionally, the Company has agreed to indemnify the Underwriters against certain liabilities under the Securities Act of 1933 (see "Underwriting").

② Before deducting additional filing, printing, legal, accounting and miscellaneous expenses of approximately \$45,000 (\$.90 per share) which the Company must pay in connection with this offering.

***This offering involves:***

***(a) Special risks concerning the Company. For information concerning such risks see "Introductory Statement" page 2.***

***(b) Immediate substantial dilution of the net tangible book value of the stock from the public offering price. For information concerning such dilution see page 3.***

***(c) Additional underwriting compensation through the purchase by the Managing Underwriter of 5% Registered Convertible Debentures. For information concerning such compensation see page 16.***

At the request of the Company, the Underwriters have reserved a maximum of 5,000 shares of the capital stock offered hereby until the public offering made by this Prospectus commences, for sale at the public offering price, to designees of the Company having business or other relationships with the Company and to certain of the Company's directors and employees and their respective designees. To the extent that shares so reserved are purchased by the foregoing persons, the number of shares available for offering to the general public will be reduced.

**HAMBRECHT & QUIST**

June 4, 1969

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMPANY'S CAPITAL STOCK AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

#### **INTRODUCTORY STATEMENT**

Spectra-Physics, Inc. was incorporated under the laws of the State of California in September 1961 and maintains its principal offices and operations at 1250 West Middlefield Road, Mountain View, California. The term "Company" as used herein refers to Spectra-Physics, Inc. and its wholly-owned European subsidiaries, Spectra-Physics, Ltd. (Glenrothes, Scotland), Spectra-Physics G.m.b.H. (Darmstadt, W. Germany), Spectra-Physics, S.A. (Fribourg, Switzerland) and Spectra-Physics, S.A.R.L. (France) (Paris, France).

The Company is engaged in the development, manufacture and sale of gas lasers, laser accessories, ranging and construction equipment, optics and thin film coatings. The Company places strong emphasis on the development of a comprehensive line of catalog products having high technological content. The Company currently derives its revenue almost exclusively from the sale of products and services at fixed or catalog prices and receives little or no income from research and development contracts from the U.S. Government or private industry.

Prospective investors should be aware of the following:

1. Despite moderate growth in sales revenues during the years ended September 30, 1967 and 1968, the Company experienced losses before income taxes and extraordinary items of approximately \$187,000 and \$166,000 respectively for these periods (see "Consolidated Statement of Income (Loss)"). The loss before income taxes and extraordinary items for the year ended September 30, 1967 of \$187,000 was reduced by approximately \$88,000 to reflect a refund of income tax paid in prior years, resulting from a net operating loss carryback from the year ended September 30, 1967, and was increased by approximately \$168,000 as an extraordinary item resulting from the discontinuance of operations of a subsidiary company. The result for the year ended September 30, 1967 was a net loss of approximately \$266,000.

2. One of the factors which has contributed to operating losses is the high level of research and product development expenditures required in the Company's business. A significant contributing factor to this high level of product development effort in the years ended September 30, 1966 and 1967 was the unsuccessful attempt by the Company to develop and market a step-and-repeat photomask camera. A major portion of the development effort related to this photomask camera was carried on by Zissen Technical Associates, Inc., a wholly-owned subsidiary of the Company. During those years, an estimated \$600,000 was expended by the Company and by Zissen together on this development effort. These expenditures are included in the research and development expenses in the "Consolidated Statement of Income (Loss)." In October 1967, the Company decided not to pursue further the development of the photomask camera and the operations of Zissen were abandoned. The remaining business and certain technological know-how resulting from Zissen's development efforts were assumed and are currently being carried on by the Company. The Company wrote off the excess of its investment over the net assets of Zissen as an extraordinary item in the year ended September 30, 1967 in the approximate amount of \$168,000. Because of the highly technical and competitive nature of the industry in which the Company engages, management anticipates that research and development expenditures will be maintained at high levels for the foreseeable future. Furthermore, management can make no assurances that such expenditures will ever eventuate in marketable products.

3. Interest expense increased substantially in 1967 and 1968 as a result of the financing of a new manufacturing facility, increased short-term borrowing and financing costs on equipment leases. The level of short-term borrowing was substantially reduced in June 1968 as a result of the sale of additional capital stock.

4. During the latter part of the year ended September 30, 1967, the Company completed a large plant and equipment expansion program that added approximately \$1.6 million to existing facilities. This was the major factor in an increase of the annual depreciation provision from \$127,808 in 1967 to \$250,193 in 1968 (see "Consolidated Statement of Income (Loss)").

5. Gross profit margins on certain of the Company's products decreased, beginning in 1967 and continuing in 1968. Most of this reduction is attributable to increases in indirect costs, principally manufacturing overhead and facilities expense. The following factors, in order of importance, accounted for this increase: (1) start-up costs in optics manufacturing products; (2) establishment of a manufacturing engineering group; (3) costs of relocating and equipping a new manufacturing building; (4) expansion of production control and quality assurance functions; (5) overtime premium costs in connection with ion laser production in 1967; and (6) increase in proportion of facilities expenses allocated to costs of products with a corresponding decrease of these expenses allocated to research and development.

6. Marketing expenses increased substantially, due principally to increases in advertising and promotion expenses in 1967 and service expenses in 1968 as the result of warranty and continued service responsibility for the ion laser product line.

Management can make no assurances that the factors contributing to the losses will not be present in the future.

#### **Dilution**

Upon completion of this offering and assuming that none of the outstanding stock options are exercised and none of the subordinated 5% Registered Convertible Debentures are converted (see Notes 5 and 7 to Consolidated Financial Statements); the purchasers of the capital stock offered by the Company hereby will have paid \$812,500 (\$16.25 per share) for 50,000 shares (approximately 10% of the then outstanding shares) while the Company has received prior to this offering \$1,377,446 for 450,540 shares, or approximately 90% of the outstanding shares, at prices ranging from approximately \$.34 to \$13.34 per share (adjusted for a 3-for-1 stock split effective January 3, 1969). Assuming exercise of all outstanding qualified stock options held by officers, directors, founders and their affiliates (see "Employee Stock Option Plan"); an average price of \$1.03 per share will have been paid by all such persons for an aggregate of 247,200 shares of capital stock.

At March 31, 1969, the net tangible book value of 450,540 shares of the Company's capital stock issued and outstanding was \$2.30 per share. Without taking into account any change in net tangible book value after March 31, 1969 other than that resulting from the sale of the 50,000 shares of capital stock offered by the Company hereby, the net tangible book value of the shares outstanding following this offering will be \$3.44 per share. Thus, the net tangible book value of the shares of capital stock owned by the Company's present shareholders will increase by \$1.14 per share and the new public investors will incur an immediate dilution of \$12.81 per share from the public offering price.

The number of shares of capital stock to be outstanding upon completion of the offering may be increased by (a) exercise of outstanding options on 64,404 shares under the Company's Employee Stock Option Plan, (b) conversion of the subordinated 5% Registered Convertible Debentures in the aggregate principal amount of \$500,000 plus exercise of options to purchase additional shares, so that the total number of shares issued upon such conversion and exercise of options will not exceed 60,000 shares of

capital stock at an average price per share decreasing from \$10.99 to \$10.31, and (c) exercise of options to purchase 3,300 shares at an aggregate exercise price of \$39,000 held by persons not employed by the Company (see Notes 5 and 7 to Consolidated Financial Statements). Assuming that all such outstanding options are exercised and debentures converted, the number of outstanding shares of capital stock would be increased from 500,540 to 628,244. During the life of such options and debentures, the holders thereof will have an opportunity to profit from any rise in the market value of the capital stock with a resulting dilution in the interest of other shareholders and may be expected to exercise their respective rights at a time when the Company would, in all likelihood, be able to obtain equity capital on terms more favorable to the Company than those provided in such options and debentures.

#### USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of 50,000 shares of capital stock being offered by the Company pursuant to this prospectus will be approximately \$687,500. Of these net proceeds it is presently contemplated that approximately \$400,000 will be used to reduce the amount of outstanding short-term indebtedness of the Company. Approximately \$100,000 of the net proceeds will be used to repay the 7% Note due 1969-1976, and the remaining proceeds of approximately \$187,500 will become part of the Company's general funds and as such will be applied to general corporate purposes.

#### CAPITALIZATION

The following table sets forth the capitalization of the Company at March 31, 1969 adjusted to reflect the issuance and sale of the shares being offered hereby.

	Outstanding	As Adjusted
Long-Term Obligations (including current maturities):		
7% Note due 1969-1976 <sup>①</sup> .....	\$ 104,406	\$ —
7% Note due 1969-1984 <sup>①</sup> .....	767,956	767,956
Equipment lease obligation due 1969-1973 <sup>②</sup> .....	321,242	321,242
Payments due under license agreement <sup>③</sup> .....	105,000	105,000
Subordinated 5% Registered Convertible Debentures due 1976 <sup>④</sup> ...	500,000	500,000
	\$1,798,604	\$1,694,198
Capital Stock:		
Capital stock, par value \$.33 <sup>1</sup> / <sub>3</sub> (3,000,000 shares authorized <sup>⑤</sup> )....	450,540 shs.	500,540 shs.

① See Note 5 of the notes to Consolidated Financial Statements.

② Related equipment is pledged to secure this indebtedness. See Note 5 of the notes to Consolidated Financial Statements.

③ See Note 4 of the notes to Consolidated Financial Statements.

④ See Notes 5 and 7 for descriptions of the subordinated 5% Registered Convertible Debentures.

⑤ Includes 154,893 shares reserved for issuance under the Company's Employee Stock Option Plan and Employee Stock Purchase Plan (see "Employees"), and also includes 63,300 shares reserved for the conversion of debentures and exercise of all other options.

See Note 8 to Consolidated Financial Statements for information as to the Company's obligations under leases of facilities.

All references herein to the Company's capital stock, including prices per share, have been adjusted to give effect to a 3-for-1 stock split effective January 3, 1969.

#### DIVIDEND POLICY

The Company has never declared or paid any stock or cash dividends on its capital stock. It is the present intention of the Board of Directors to continue this policy in order to retain any earnings for use of the business.

## CONSOLIDATED STATEMENT OF INCOME (LOSS)

The following consolidated statement of income (loss) of Spectra-Physics, Inc. and subsidiaries for the five years ended September 30, 1968 has been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere in this Prospectus. The consolidated statement of income (loss) for the six months ended March 31, 1968 and 1969 is unaudited; in the opinion of the Company, such unaudited statement includes all adjustments (which comprise only normal recurring accruals) necessary for a fair presentation of the results of operations for such periods. This statement should be read in conjunction with the other financial statements appearing elsewhere in this Prospectus.

	Years Ended September 30,					Six Months Ended March 31, (Unaudited)	
	1964	1965	1966	1967	1968	1968	1969
Net sales .....	\$1,748,379	\$2,749,500	\$4,105,189	\$4,769,092	\$5,301,523	\$2,644,028	\$2,565,077
Costs and expenses <sup>①</sup> :							
Cost of goods sold .....	954,993	1,190,495	1,510,050	2,163,047	2,910,008	1,424,206	1,391,166
Research and development .....	298,000	702,000	1,337,256	1,373,258	948,637	514,030	451,026
Marketing .....	281,105	451,357	685,829	969,086	1,053,986	562,373	556,949
General and administrative .....	120,100	219,300	333,109	322,296	335,241	189,098	192,559
Interest .....	19,441	24,094	41,128	127,993	219,722	121,477	60,773
	<u>1,673,639</u>	<u>2,587,246</u>	<u>3,907,372</u>	<u>4,955,680</u>	<u>5,467,594</u>	<u>2,811,184</u>	<u>2,652,473</u>
Income (loss) before taxes on income .....	74,740	162,254	197,817	(186,588)	(166,071)	(167,156)	(87,396)
Provision (credit) for federal and foreign taxes <sup>②</sup> .....	20,251	62,313	54,277	(88,240)	9,065	—	16,000
Income (loss) before extraordinary item .....	54,489	99,941	143,540	(98,348)	(175,136)	(167,156)	(103,396)
Extraordinary item <sup>③</sup> .....				(167,949)			
Net income (loss) .....	<u>\$ 54,489</u>	<u>\$ 99,941</u>	<u>\$ 143,540</u>	<u>\$ (266,297)</u>	<u>\$ (175,136)</u>	<u>\$ (167,156)</u>	<u>\$ (103,396)</u>
Weighted average number of shares <sup>④</sup> .....	212,454	274,968	300,228	325,083	370,740	340,599	447,003
Income (loss) per share <sup>④</sup> :							
Before extraordinary item .....	\$.26	\$.37	\$.49	\$(.30)	\$(.47)	\$(.49)	\$(.23)
Extraordinary item .....				(.52)			
Net income (loss) .....	.26	.37	.49	(.81)	(.47)	(.49)	(.23)

① Depreciation of property, plant and equipment was provided for as follows: years ended September 30, 1964—\$29,703; September 30, 1965—\$48,900; September 30, 1966—\$68,432; September 30, 1967—\$127,808; September 30, 1968—\$250,193; six months ended March 31, 1968—\$121,295, March 31, 1969—\$102,797 (see Note 3 to Consolidated Financial Statements).

② The Company accounted for the investment credit realized on the flow-through method as a reduction of its provision for federal income taxes in the years ended September 30, as follows: 1964—\$11,765; 1965—\$15,477; 1966—\$12,573. As a result of the loss in the year ended September 30, 1967 most of the credits claimed in the prior periods were reversed and may be carried forward for use in future periods.

③ The activities of Zissen Technical Associates, Inc., a wholly-owned subsidiary, consisted primarily of development efforts related to a step-and-repeat photomask camera. Concurrently, the Company also was developing certain products related to this photomask camera. In 1967, the portion of the development work performed by Zissen was abandoned and the remaining business and certain technological know-how resulting from Zissen's development efforts were assumed and are currently being carried on by the Company. Because Zissen's project was abandoned, the Company wrote off the excess of its investment over the net assets of Zissen as an extraordinary item in the year ended September 30, 1967. No tax benefit has been given to the extraordinary loss because it has resulted in a net operating loss carryforward.

④ Per share information, in the case of periods with net income, is based on the average number of shares of capital stock outstanding and shares issuable upon exercise of those outstanding employee stock options considered to be common stock equivalents (because of the relationship of their exercise price to the fair market value of the capital stock) both adjusted for the 3-for-1 stock split effective January 3, 1969. In computing the per share effect of assumed exercise of those stock options, it has been assumed that proceeds would have been applied at the date the options became common stock equivalents to reduce outstanding long-term debt and thereby reduce interest expense at the rate of 7% which is currently being paid on long-term debt. The effect of these assumptions is shown in the following tabulation:

	Years Ended September 30,		
	1964	1965	1966
Weighted average number of shares outstanding .....	212,454	217,719	264,132
Weighted average number of shares issuable on exercise of stock options considered to be common stock equivalents .....		57,249	39,096
Weighted average number of shares .....	<u>212,454</u>	<u>274,968</u>	<u>300,228</u>
Net income .....	\$ 54,489	\$ 99,941	\$143,540
Effect of assumed exercise of options .....		2,715	2,261
Total for computation of net income per share .....	<u>\$ 54,489</u>	<u>\$102,656</u>	<u>\$145,801</u>

No cash dividends have been paid by the Company. See Note 5 to the Consolidated Financial Statements for an explanation of the restrictions of payment of dividends in the future.

Sales for the six month period ended March 31, 1969 were approximately \$93,000 less than sales for the six month period ended September 30, 1968. Certain technical and production scheduling problems occurred in the initial production runs of newly introduced products during the six month period ended March 31, 1969. These problems contributed to the delay of deliveries of sales orders during this period, causing unfilled order receipts backlog to increase from \$390,000 at September 30, 1968 to \$840,000 at March 31, 1969 (see "Business—Sales and Distribution"). Moreover, technical and production scheduling problems resulted in additional manufacturing expenses during this period over the manufacturing expenses anticipated by the Company. In addition, marketing expenses increased during this period by approximately \$65,000. These expenses were incurred in areas principally related to advertising and promotion of newly introduced products and other promotion and marketing costs of certain new products not yet released for sale.

The foregoing were the principal causes of operating losses before taxes of \$87,396 for the six month period ended March 31, 1969. Management can give no assurance that the factors contributing to such losses during the aforementioned period will not be present in future Company operations.

## BUSINESS

### General

The Company was founded in 1961 to engage in development of quantum-electronic devices and satellite and rocket-borne systems under contract to the U.S. Government. One year after the first gas laser was demonstrated in 1961, the Company pioneered in the introduction of commercial gas laser products, as a result of a two-year joint-venture agreement with The Perkin-Elmer Corporation. Gradually over the next three years, commercial gas laser products became the dominant contributors to the Company's sales volume, while it phased out of the research and development contract business.

A laser is a device capable of generating coherent optical radiation at infrared, visible and ultra-violet wavelengths. Generally, a laser consists of an optical resonator, an active medium within the resonator, and a means for energizing the active medium.

The resonator usually comprises two highly reflecting optical surfaces precisely positioned so as to confine optical energy within the resonator and within the active medium which is inserted in the resonator. The active medium contains molecules or atoms which are capable of being raised to an excited energy state by an electrical or optical energy source. Under proper conditions, when these excited particles return to a lower energy state, they give rise to laser radiation.

The various types of lasers are generally distinguished by whether the active medium is gaseous, liquid or solid state. This medium, in turn, determines such characteristics of the optical radiation emitted as wavelength and power. Lasers using a gaseous active medium are commonly known as gas lasers. The most common gas lasers may be subdivided into three categories: neutral atom lasers, ion lasers and molecular lasers.

Optical laser radiation is unique because it possesses all the properties of microwaves and behaves according to the well-defined mathematical laws of physics that pertain to coherent electromagnetic radiation. These properties include:

1. Monochromaticity (a single, well-defined wavelength).
2. Brightness. The intense energy of a laser may be focused into an extremely small spot.
3. Coherence. A beam of light radiated from a laser is well-defined in terms of time and position and may be focused into a highly directional beam that will diverge only slightly over many miles of transmission.
4. High information bandwidth. The high frequency of laser radiation allows increased amounts of information to be transmitted over a light beam.

The helium-neon neutral atom laser is the most widely-used laser today and is characterized by low power, monochromatic and continuous visible red output. Argon ion lasers, which are larger and require greater electrical input power, are capable of producing continuous visible blue and green outputs at higher power levels.

### Products

#### *Gas Lasers:*

The Company manufactures and markets a line of helium-neon and argon ion gas laser light sources which are distinguished primarily on the basis of output power, wavelength and stability and which range in price from \$250 to approximately \$20,000. Gas lasers produce a continuous beam of light the optical



properties of which make it suitable for high performance operation in many applications which previously used ordinary light. The principal purchasers of gas laser products are researchers experimenting with various applications of coherent light. Typical applications include analytic chemistry, holography, metrology (precise distance measurement), data processing, optical testing and alignment. Gas lasers accounted for approximately 68% of the Company's net sales during the year ended September 30, 1968 and 53% during the six months ended March 31, 1969. Revenue derived from the service of customer-owned equipment beyond the applicable warranty period amounted to approximately 6% of the Company's net sales during the year ended September 30, 1968 and approximately 9% during the six months ended March 31, 1969.

#### *Laser Accessories:*

The Company produces electro-optical and mechanical devices which are used in conjunction with gas laser experimentation and applications. Typical examples include beam-expanding telescopes, electro-optic modulators, optical spectrum analyzers and power meters. These products accounted for approximately 9% of the Company's net sales during the period ended September 30, 1968 and approximately 13% during the six months ended March 31, 1969.

#### *Ranging and Construction Instruments:*

The Company produces specially-designed gas laser instruments for use in the construction industry, ranging in approximate price from \$1,500 to \$3,000. The visible laser beam provides a reference line or plane to aid in construction alignment or the location of construction equipment. Such laser control is possible because light from a laser remains parallel as it travels long distances. The parallel beam forms a sharp bright reference spot or plane and is visible both day and night at great distances. Laser control is used for aligning dredges, guiding tunnelling machines, installing pipe lines, positioning marine equipment and other construction applications.

The Company also produces a high precision ranging device employing the modulated light from a gas laser as a measuring beam. This instrument, sold under the registered trademark "Geodolite®," sells for approximately \$50,000 and is capable of precisely determining distances to a target such as a reflecting mirror and of obtaining detailed profiles of the earth's surface when flown in an aircraft. Typical applications include precise geodetic measurements, wave height studies, arctic terrain profiles and continuous altimeter measurement in support of airborne photogrammetric missions.

Ranging and construction instruments accounted for approximately 6% of the Company's net sales during the year ended September 30, 1968 and approximately 13% during the six months ended March 31, 1969.

#### *Optics and Thin Film Coatings:*

Thin film coatings may be applied to optical elements in order to control selectively the transmittance and reflectance of optical energy. The desired thickness and composition of the films are determined analytically, usually with the aid of a computer. The films are then applied by evaporating the coating material and condensing it on the optical elements in a vacuum chamber.

It became desirable for the Company to engage in the grinding, polishing and coating of precision optics as an adjunct to its gas laser business. Precision coated optical components constitute the critical elements of a gas laser, and the control of the processes used in producing these items is considered vital

to the maintenance of the uniform quality and reliable operation of the Company's gas lasers. In 1967 the Company began to market this capability to external consumers as a custom service. Sales of thin-film products and services amounted to approximately 6% of the Company's net sales during the year ended September 30, 1968 and approximately 9% during the six months ended March 31, 1969.

#### *Other Products and Services:*

During the year ended September 30, 1968 other products and services sold on a non-recurring basis accounted for approximately 5% of sales revenues. During the six months ended March 31, 1969, the percentage was approximately 3%. These non-recurring revenues were derived principally from the sale of mechanical fabrication services.

#### **Sales and Distribution**

The Company regards as essential the maintenance of a staff of factory-trained field sales engineers who possess superior technical knowledge of the Company's products. Customers for gas laser products frequently look to the sales engineer as a technical expert in his field. Except for the Rocky Mountain and Southwestern States where sales are handled by a firm of independent manufacturers' representatives, the Company's products are sold directly throughout the United States by seven field sales engineers who reside in their assigned territories.

In Europe, the Company's products are sold directly by field sales engineers employed by the Company's wholly-owned sales subsidiaries in the United Kingdom, Germany and France. Sales are handled by independent sales distributors in the following countries: Netherlands, Switzerland, Sweden, Norway, Israel, Italy, Spain, Greece, Belgium, Yugoslavia, Finland, Denmark, South Africa, Japan, New Zealand, Australia, Canada, Mexico, Venezuela, Argentina and India.

Revenues from sales outside the United States accounted for approximately 21% of the Company's net sales during the year ended September 30, 1968 and approximately 29% during the six months ended March 31, 1969.

The Company's backlog of unfilled orders for catalog products at September 30, 1968 was approximately \$380,000, as compared with approximately \$790,000 for the prior year. The backlog at March 31, 1969 was approximately \$840,000, all of which represents orders required to be delivered within 90 days.

The Company has no material long-term contracts to provide products or services.

#### **Marketing**

The Company maintains a marketing staff of ten technical and administrative personnel who are responsible for factory support of the field sales organization. Among the services provided by the marketing staff are the following: technical support, sales order processing, preparation of media advertising, data sheets and technical bulletins, organizing trade show exhibits and conducting periodic mailings to customers.

#### **Field Service**

The Company's products are warranted to be free from defects in material and workmanship for a period of one year from the date of shipment to the customer. This warranty extends to a critical component of the gas laser containing the active medium, called the "plasma tube," which has a typical operating lifetime of several thousand hours. After the warranty period, the customer is charged for a

plasma tube replacement, at which time a new one-year plasma tube warranty is issued. In order to provide this field service and to maintain customer satisfaction, the Company employs 11 service engineers and technicians in the operation of service facilities in California, New Jersey, West Germany, France and the United Kingdom.

### **Research and Development**

The Company maintains a research and development staff consisting of 27 employees, six of whom hold Ph.D. degrees in physics or optics. Because of the rapidly advancing state of laser technology, its products must be generated continuously in order to maintain pace with competition. Product lifetimes of less than three years are not unusual. Therefore, large sums must be spent for product development (see "Introductory Statement"). During the year ended September 30, 1968, approximately \$950,000 was spent on Company-funded product development and research.

The Company is developing a new product under a license agreement but has yet received orders for this product (see Note 4 to Consolidated Financial Statements).

### **Competition**

The Company competes in the manufacture and sale of its products with a substantial number of other firms, many of which are considerably larger than the Company in size and financial resources. Because of the competitive nature of the industry and the rate at which new products are introduced, the risk that innovations or new products may render the Company's products obsolete must be recognized.

### **Government Sales**

Approximately 35% of the Company's sales are to the United States Government and to United States Government contractors. Since all but a small portion of these sales are subject to the commercial articles exemption of the Renegotiation Act of 1951, management does not anticipate that in the foreseeable future the Company's sales classified as "renegotiable" will exceed the minimum of \$1,000,000 per annum required before renegotiation under such Act is required.

### **Patents**

The Company has an active program of filing patent applications on inventions made by its employees and consultants, and it has been granted several domestic and foreign patents. Although the Company considers patents a significant and important factor in its business, it does not consider them essential to its continued operation. In general the Company relies on research and development efforts rather than patent protection to achieve and maintain its technological position.

The Company is a defendant in a civil action filed March 20, 1968 in the District Court for the Northern District of California by the Research Corporation for infringement of U.S. Patent 2,879,439 entitled "Production of Electromagnetic Energy." The suit seeks an injunction against use of the patent and claims damages in an unspecified amount. Company counsel has advised the Company that in its opinion the suit is without merit. The outcome of any litigation can never be predicted with certainty.

In addition, claims of patent infringement have been asserted by two other corporations. In the event that the products manufactured by the Company may be covered in whole or in part by a valid

patent owned by another, the Company may find it desirable or necessary in the future to enter into one or more patent license agreements. Although the Company presently has no licenses in effect, it believes that it will be able to obtain any license which may be required upon terms which will not have any material adverse effect on its operations.

### PROPERTY AND EQUIPMENT

The Company leases approximately 36,000 square feet of floor space on two contiguous parcels under leases expiring June 1, 1973 and June 7, 1975. In addition, the Company leases approximately 4,000 square feet of storage space under a lease expiring August 31, 1969. Of property leased by the Company, a parcel of 18,000 square feet is subleased until May 31, 1973 with a six-months' cancellation provision. The Company owns and occupies a new, one-story, 44,000 square foot tilt-up concrete building on an adjoining 3.5 acres of land. The Company also leases an unimproved 8.2 acre parcel from Mountain View Industrial Park, Inc. until 1970, which carries an option to purchase the land until September 30, 1970. Management believes Company facilities to be satisfactory for the foreseeable future.

Machinery and equipment owned and leased by the Company consists mainly of manufacturing, assembly and service equipment for laser products as well as processing equipment for optical coating. The Company's outstanding non-capitalized lease obligations at December 31, 1968 was approximately \$134,000. In the opinion of management, all machinery and equipment is modern and in good working condition.

### MANAGEMENT

#### Directors and Executive Officers

The Directors and executive officers of the Company are as follows:

<u>Name</u>	<u>Office</u>
Herbert M. Dwight, Jr.	Chairman of the Board, President and Director
Kenneth A. Ruddock	Vice President and Director
Ronald E. Myers	Treasurer
Jerald E. Rosenblum	Secretary and Director
William E. Ayer	Director
Arnold L. Bloom	Director
George Quist	Director

Herbert M. Dwight, Jr., the chief executive officer of the Company, has been a Director of the Company since its founding in 1961 and was Vice President from such date until elected President in 1967.

Kenneth A. Ruddock has been a Director of the Company since its founding in 1961 and was elected Vice President in 1963.

Ronald E. Myers was elected Treasurer of the Company in 1969 and has been employed by the Company since 1966. Prior to that time he attended the Stanford Business School and was employed as staff accountant by Price Waterhouse & Co.

Jerald E. Rosenblum is a member of the law firm of Sammet & Rosenblum, counsel for the Company, and has served the Company as Secretary since 1964 and as Director since 1968.

William E. Ayer is a founder and former President of Applied Technology, Inc., a subsidiary of I Corporation. He has served the Company as a Director since 1968.

Arnold L. Bloom has been a Director of the Company and has been employed by the Company as a scientist since its founding in 1961.

George Quist is a partner of the investment banking firm of Hambrecht & Quist and has served the Company as a Director since 1969.

One directorship is vacant and no candidate has been proposed.

#### **Remuneration**

No Director or officer of the Company received an aggregate direct remuneration in excess of \$30,000 during the last fiscal year. The aggregate direct remuneration of all Directors and officers for the year ended September 30, 1968 was \$97,000 (exclusive of legal fees paid to Messrs. Sammet Rosenblum, of which Mr. Rosenblum is a member).

#### **Certain Transactions**

Herbert M. Dwight, Jr., President of the Company and Chairman of the Board, is an officer, director and a principal shareholder of Tranex, Inc., a California corporation engaged in the manufacture of specialty transformers. Over the past three years, the Company has purchased such transformers from Tranex, Inc. in the approximate amount of \$116,000.

On June 14, 1968 the Company sold 69,750 shares of capital stock to an insurance company, two brokerage firms and Mr. William E. Ayer, a director of the Company. A total of 69,750 shares were sold at a price of \$13.34 per share. Mr. Ayer purchased an aggregate of 2250 shares for an aggregate price of \$30,000.

Jerald E. Rosenblum, Secretary of the Company and a Director, has been associated with law firm to which the Company has paid legal fees in the approximate amount of \$40,000 over the past three years.

#### **EMPLOYEES**

Approximately 260 persons are currently employed by the Company, of whom approximately 30 are graduate engineers or physicists. None of the employees are represented by a labor union. Employee benefits are competitive with the industry and include paid holidays, vacations and sick leave, hospital, life and long-term disability insurance programs for all employees and educational assistance in business related fields.

#### **Employee Stock Option Plan**

The Company has an Employee Stock Option Plan which provides for the issuance to officers and key employees of the Company and its subsidiaries of options to purchase an aggregate of 225,000 shares of the Company's capital stock. A Stock Option Plan Committee composed of three members of the Board of Directors is responsible for the administration of the Plan. The exercise price of options is determined by the Stock Option Plan Committee and may not be less than 100% of the fair market value of the capital stock on the date of the grant of the option. The Plan is designed to meet the requirements of the Internal Revenue Code relating to stock options (Section 422) and its purpose is to permit the Company to provide an incentive to key employees and to attract competent new personnel.

Options granted by the Stock Option Plan Committee expire not more than five years from the date of grant and are nontransferable except by will or the laws of descent and distribution. Each option granted is exercisable in cumulative increments of one-third at the end of two, three and four years from the date of grant, provided in each case that the optionee is then an employee of the Company. Options are exercisable for a period of thirty (30) days after termination of employment and one year after the death of the optionee.

On March 31, 1969 options held by 143 employees covering an aggregate of 64,404 shares of capital stock were outstanding. These options bear an average exercise price of \$6.93 per share and expire between December 15, 1969 and November 4, 1973. All officers and directors as a group hold options to purchase 2,550 shares, of which options covering 900 shares are exercisable at a price of \$3.08 per share, 450 at a price of \$3.33 per share and 1,200 at a price of \$13.34 per share. As of March 31, 1969, the total number of shares which had been issued pursuant to the exercise of options under the Plan was 68,652. Of these shares, 675 were repurchased and retired by the Company, leaving a net of 67,977 shares outstanding.

As an alternative to the granting of options, the Stock Option Plan Committee is authorized to make direct cash sales of shares to employees at fair market value as determined by the Committee. Shares granted to date under this alternative authority were subject to an agreement providing the Company with the privilege of repurchasing these shares in full if the employment of the shareholder is terminated within two years from the date of sale, and in part if such employment is terminated after two years but prior to four years from such date. As of March 31, 1969, the Company had sold an aggregate of 25,455 shares, of which 6,909 shares have been repurchased and retired (including 800 shares voluntarily sold to the Company), leaving a net aggregate of 18,546 shares outstanding as a result of direct cash sales under the Plan.

Of the 225,000 shares authorized by the Plan for reservation under option or distribution pursuant to cash purchases, as of March 31, 1969, an aggregate of 66,489 unoptioned shares were available under the Plan and an aggregate of 64,404 shares were reserved for issuance upon the exercise of outstanding options.

In addition to the shares offered by the Underwriting Prospectus, these 225,000 shares are being registered. This offering is being made by the Employee Prospectus which more fully sets forth the terms and conditions of the Plan. An aggregate of 86,523 shares are outstanding which were issued pursuant to exercise of stock options and pursuant to direct cash sales under the Plan. Each holder of these shares is being offered by the Employee Prospectus the choice of retaining his shares or returning them to the Company for the original purchase price paid to the Company for such shares plus interest at the rate of 7% per annum, plus surrender of all rights or claims against the Company arising out of the issuance and sale of such shares. Should all persons elect to return their shares for cash, the outlay required of the Company would be approximately \$95,500.

The offers are being made because of certain contingent liabilities which may arise as a result of the prior issuance and sale of such shares without registration under the Securities Act of 1933, as amended. Although the Company claims exemption from the registration provisions of the Act, it is voluntarily making such offer by means of the Employee Prospectus. This offer expires at the close of business on July 5, 1969 (30 days after effective date of this Prospectus).

#### **Employee Stock Purchase Plan**

The Company has reserved 24,000 shares of its capital stock for issuance under an Employee Stock Purchase Plan, to become effective on July 1, 1969. The purpose of the Plan is to provide employees with a convenient means for acquiring an equity ownership in the Company and thereby to enhance their sense of participation in Company affairs and provide an incentive for continued employment. The Plan is administered by the Stock Option Plan Committee composed of three members of the Board of Directors.

All full-time employees of the Company are eligible for participation after six months of employment. Upon enrollment in the Plan, an employee designates a percentage of between 3% and 6% of his straight time pay to be withheld as a contribution by payroll deduction. The Stock Option Committee shall

determine the fair market value of the Company's capital stock on January 1, 1970; and on e July 1st and January 1st thereafter. Upon each such determination, the employee is issued a number shares equal to the accumulated payroll deduction divided by 75% of this fair market value. Any amo remaining in the employee's payroll deduction account which is less than the sum required to purch a full share is carried over to the next determination date. An employee may withdraw the funds c contributed by him at any time prior to the issuance of the shares. The Plan and the rights of the employees make purchases of stock are not intended to qualify for any special tax benefits and it is anticipated th any excess of the market value of the shares purchased by any participant on the effective date of purch over the purchase price paid by him therefor will constitute additional compensation taxable to him such and be deductible in full by the Company.

#### PRINCIPAL SHAREHOLDERS

The following table sets forth the ownership of the capital stock of the Company held as of Mar 31, 1969, by all persons who owned of record, or are known by the Company to own beneficia 10% or more of the Company's capital stock, persons who may be deemed "parents" of the Compa under the Rules and Regulations of the Securities and Exchange Commission and by all officers a directors of the Company as a group. All ownership is beneficial and of record except as noted belo Messrs. Dwight, Bloom and Ruddock may be deemed to be "parents" of the Company.

Name	Shares	Percent of Class
Robert C. Rempel .....	51,348 <sup>①</sup>	11.4%
Herbert M. Dwight, Jr. ....	50,202	11.2
Arnold L. Bloom .....	49,812 <sup>②</sup>	11.1
Kenneth A. Ruddock .....	38,100	8.5
All Officers and Directors as a Group..	145,752	32.7

① Excludes 15,000 shares owned beneficially and of record by his wife as to which he disclaims any beneficial ownership.

② Excludes 390 shares held as custodian for his minor child as to which he disclaims any beneficial ownership.

Robert C. Rempel was President and a Director of the Company from its founding until November 1967. He is no longer associated with the Company.

#### DESCRIPTION OF SECURITIES

On January 3, 1969, the Company amended its Articles of Incorporation to increase the authorize number of shares of capital stock from 1,000,000 shares of \$1 par value to 3,000,000 shares of \$.33 1/2 par value. Coincidentally therewith, the outstanding shares were increased to 446,343 by means of 3-for-1 stock split. At the completion of the offering made hereby a total of 500,540 shares of capit stock will be issued and outstanding. All shares of capital stock, including those offered hereby, hav full voting rights and the holders of capital stock have the right to cumulate votes for the election of direc tors. The holders of capital stock are entitled to dividends out of funds legally available therefor when an as declared by the Board of Directors (see "Dividend Policy").

On liquidation, dissolution or winding up of the Company, the holders of capital stock are entitle to receive the net assets of the Company in proportion to the respective number of shares held by them

The shareholders have no conversion rights or preemptive rights and the shares of the Company are not subject to redemption. The shareholders have no liability for further calls or assessments.

Under the terms of the 7% Note Payable due 1969-1984 (see "Capitalization"), the Company has agreed, among other things, that it will not (1) permit working capital to be less than \$820,000; or (2) make net redemptions of capital stock in excess of 50% of consolidated net income after September 30, 1966 or declare or pay cash dividends in an amount in excess of 50% of consolidated net income after September 30, 1966.

The subordinated 5% Registered Convertible Debentures are due May 1, 1976 with interest payable from May 1, 1971 and redeemable by the Company at its election. The debenture holders are entitled to convert the principal amount of the debentures into the \$.33 $\frac{1}{3}$  par value capital stock of the Company at a per-share conversion price ranging from \$11.08 at May 1, 1968 to \$10.21 from May 1, 1971 to maturity. In addition, at the time of conversion of the debentures, the holders may exercise options to acquire the Company's capital stock, par value \$.33 $\frac{1}{3}$ , at \$11.67 per share. The number of shares under option ranges from an aggregate maximum of 14,889 to an aggregate minimum of 11,019 in proportion to the decrease in the conversion price of the debentures so that the number of shares obtainable upon conversion of debentures and exercise of the options will not exceed 60,000 shares.

On October 3, 1966, an option to purchase 3,000 shares of the Company's capital stock, par value \$.33 $\frac{1}{3}$ , was granted by the Company to Mountain View Industrial Park, Inc. in consideration of accepting the Company's 7% secured promissory note to finance the purchase of 3.5 acres of land on which the Company's plant site is located. This option bears an exercise price of \$11.67 per share and may be exercised at any time up to October 3, 1976.

On September 1, 1968, the Company granted an option to purchase 300 shares of the Company's capital stock, par value \$.33 $\frac{1}{3}$ , to a technical consultant of the Company at an exercise price of \$13.34 per share. This option expires on September 30, 1970 and is exercisable in full on September 1, 1970 only if the optionee has been retained as a consultant for a period of two years ending on September 1, 1970 and exercisable in part if the consultant is terminated by the Company prior to September 1, 1970.

The Company will furnish its shareholders with annual reports containing financial statements certified by independent certified public accountants, and intends to furnish its shareholders with unaudited quarterly reports of earnings.

The Company has appointed Bank of America National Trust and Savings Association as Transfer Agent and Crocker-Citizens National Bank as Registrar for the capital stock.

#### LEGAL OPINIONS

Legal matters in connection with the sale of the capital stock offered by this Prospectus are being passed upon for the Company by Messrs. Sammet & Rosenblum, 151 University Avenue, Palo Alto, California 94301, and for the Underwriters by Messrs. Orrick, Herrington, Rowley & Sutcliffe, 405 Montgomery Street, San Francisco, California 94104. Jerald E. Rosenblum, a member of the firm of Sammet & Rosenblum, is Secretary and a Director of the Company and owns 4,248 shares of the Company's capital stock.

#### EXPERTS

The consolidated financial statements and schedules of Spectra-Physics, Inc. for the three years ended September 30, 1968, and the consolidated statement of income (loss) for the five years then ended appearing in this Prospectus and Registration Statement have been examined by Arthur Young & Company, certified public accountants, as set forth in their reports appearing elsewhere herein, and are included in reliance upon such reports and upon the authority of such firm as experts.



## UNDERWRITING

The several Underwriters named below, acting through Hambrecht & Quist, as Managing Underwriter, have entered into an Underwriting Agreement with the Company pursuant to which they have agreed severally to purchase from the Company the number of shares of capital stock of the Company set forth below. Such purchases are subject to the terms and conditions of the Underwriting Agreement, a copy of which is filed as an exhibit to the Registration Statement and is incorporated herein by reference. The nature of the underwriting commitment is such that if any of the shares are purchased, all must be purchased.

Name	Address	Number of Shares to Be Purchased
Hambrecht & Quist .....	235 Montgomery Street San Francisco, California 94104 .....	20,000
C. E. Unterberg, Towbin Co. ....	61 Broadway New York, N. Y. 10006 .....	8,000
Mitchum, Jones & Templeton Incorporated .....	510 South Spring Street Los Angeles, California 90013 .....	5,000
Shuman, Agnew & Co. ....	650 California Street San Francisco, California 94108 .....	5,000
Brush, Slocumb & Co. Inc. ....	465 California Street San Francisco, California 94104 .....	4,000
Davis, Skaggs & Co. ....	160 Sansome Street San Francisco, California 94104 .....	4,000
Seiden & de Cuevas Incorporated. .	110 Wall Street New York, N. Y. 10005 .....	4,000
Total .....		50,000

The shares of capital stock offered by this Prospectus are offered subject to prior sale and to the right of the Underwriters to withdraw, cancel, or modify such offer and to reject orders in whole or in part when, as and if the shares are transferred to and accepted by the Underwriters. The shares are offered in part directly to the public at the initial public offering price, as set forth on the cover page of this Prospectus, and in part to certain securities dealers less a concession of \$.50 per share from such price. The Underwriters may allow and such dealers may reallow a discount of \$.25 per share on sales to other dealers. After the initial public offering, the Managing Underwriter is authorized to change the public offering price and the concession and discount to dealers.

The Underwriting Agreement contains reciprocal covenants of indemnity against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Company has agreed not to sell any shares of capital stock of the Company without the consent of the Managing Underwriter for a period of 120 days from the date of this Prospectus.

On May 16, 1969 the Managing Underwriter purchased from two holders thereof an aggregate principal amount of \$30,000 of the Company's subordinated 5% Registered Convertible Debentures due May 1, 1976 (see "Description of Securities"). These securities, for which the Managing Underwriter paid \$48,900, are presently convertible into 2,781 shares of capital stock and, assuming present exercise, carry with them an additional option to purchase 819 shares of capital stock at a price of \$11.67 per share. The shares will not be sold for 12 months from the date of the offering made by this Prospectus. Any profits realized on the resale of these shares may be deemed additional underwriting compensation.

George Quist, a general partner of the Managing Underwriter, is a Director of the Company.

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors  
Spectra-Physics, Inc.

We have examined the accompanying consolidated balance sheet of Spectra-Physics, Inc. and subsidiaries at September 30, 1968, the related consolidated statement of income (loss) for the five years then ended, and the related consolidated statements of capital in excess of par value and retained earnings (deficit) for the three years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Spectra-Physics, Inc. and subsidiaries at September 30, 1968 and the consolidated results of their operations for the five years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

San Francisco, California  
January 3, 1969

## CONSOLIDATED FINANCIAL STATEMENTS

### SPECTRA-PHYSICS, INC.

### CONSOLIDATED BALANCE SHEET

ASSETS	September 30, 1968	March 31, 1969 (Unaudited)
Current assets:		
Cash .....	\$ 301,621	\$ 259,917
Accounts receivable, less allowance for doubtful accounts of \$12,000 .....	904,872	1,027,292
Inventories (note 2):		
Work-in-process and finished goods .....	852,841	942,801
Raw materials .....	67,324	61,682
	920,165	1,004,483
Prepaid expenses .....	79,559	81,253
Total current assets .....	2,206,217	2,372,945
Property, plant, and equipment, at cost (notes 3 and 5):		
Land .....	152,640	152,640
Buildings and improvements .....	929,968	930,732
Leasehold improvements .....	16,833	17,110
Equipment and furniture .....	858,651	874,643
	1,958,092	1,975,125
Less accumulated depreciation .....	513,544	602,880
	1,444,548	1,372,245
License agreement, at cost (note 4) .....	130,000	130,000
Other assets .....	40,951	39,279
	\$3,821,716	\$3,914,469
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Notes payable to banks .....	\$ 244,996	\$ 409,983
Accounts payable .....	164,175	233,973
Accrued payroll .....	110,324	140,381
Accrued liabilities, other .....	79,407	81,083
Taxes on income .....	38,068	46,549
Current portion of long-term debt (note 5) .....	124,188	120,550
Total current liabilities .....	761,158	1,032,519
Long-term debt due after one year (note 5) .....	1,765,821	1,678,054
Deferred federal income tax (note 6) .....	39,000	39,000
Commitments and contingencies (note 8)		
Stockholders' equity:		
Capital stock, \$.33 $\frac{1}{3}$ par value; 3,000,000 shares authorized, 443,469 shares issued and outstanding at September 30, 1968 and 450,540 shares at March 31, 1969 (notes 7 and 10) .....	147,823	150,180
Capital in excess of par value .....	1,217,068	1,227,266
Accumulated deficit .....	(109,154)	(212,550)
Total stockholders' equity .....	1,255,737	1,164,896
	\$3,821,716	\$3,914,469

See Accompanying Notes

**SPECTRA-PHYSICS, INC.**

**CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE**

	Year Ended September 30,			Six Months Ended March 31, 1969 (Unaudited)
	1966	1967	1968	
Balance at beginning of period .....	\$ 26,784	\$154,286	\$ 168,213	\$1,217,068
Excess of proceeds over par value of capital stock issued on exercise of stock options and other sales of stock (note 7) .....	9,667	16,343	919,142	10,198
Excess of amount of convertible debentures over par value of stock issued upon conversion .....	126,575		139,626	
Excess of payments for redemptions over par value of capital stock redeemed and retired .....	(8,740)	(2,416)	(9,913)	
Balance at end of period .....	\$154,286	\$168,213	\$1,217,068	\$1,227,266

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)**

	Year Ended September 30,			Six Months Ended March 31, 1969 (Unaudited)
	1966	1967	1968	
Balance at beginning of period .....	\$188,739	\$332,279	\$ 65,982	\$ (109,154)
Net income (loss) for the period .....	143,540	(266,297)	(175,136)	(103,396)
Balance at end of period .....	\$332,279	\$ 65,982	\$ (109,154)	\$ (212,550)

See Accompanying Notes

**SPECTRA-PHYSICS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information Pertaining to Periods Subsequent**  
**to**  
**September 30, 1968 is unaudited)**

**1. Principles of consolidation**

The Company acquired for cash and debentures the outstanding stock of Parsons Precision Optics, Inc. and Zissen Technical Associates, Inc. in separate transactions in September 1965. In the year ended September 30, 1966, Parsons was merged into the parent company. In 1967, the operations of Zissen, which consisted primarily of development efforts related to a step-and-repeat photomask camera, were abandoned and the remaining business operations and certain technological know-how resulting from Zissen's development efforts were assumed and are currently being carried on by the Company. From September 1965 to such dates the results of operations of Parsons and Zissen are included with those of the Company and its wholly-owned foreign subsidiaries. After consolidating adjustment, the total assets of the foreign subsidiaries at September 30, 1968 and March 31, 1969 were \$559,218 and \$467,846 respectively; their total liabilities were \$348,486 and \$263,668, respectively; and the net income for the year ended September 30, 1968 and the six months ended March 31, 1969 was \$8,125 and \$76,168, respectively. The accounts of the foreign subsidiaries have been converted at official rates of exchange. Losses in foreign exchange and the conversion of the foreign subsidiaries' accounts to U.S. dollar equivalents are not material and have been included in general and administrative expense.

**2. Inventories**

Inventories used in the computation of cost of goods sold for the three years ended September 30, 1968 and six months ended March 31, 1969 are as follows:

September 30, 1965 .....	\$ 471,704
September 30, 1966 .....	509,624
September 30, 1967 .....	1,101,856
September 30, 1968 .....	920,165
March 31, 1969 .....	1,004,483

Inventories are stated at the lower of cost, on the first-in, first-out method, or market.

It is not practical to segregate inventories between work-in-process and finished goods.

**3. Property, plant, and equipment and depreciation policy**

The Company provides for depreciation by the double-declining balance method based upon the estimated useful lives of the properties. Estimated useful lives used in computing depreciation are as follows: building and improvements, approximately 25 years; leasehold improvements, term of lease; equipment and furniture, 4 to 10 years.

Maintenance and repairs are charged to expense, and renewals and betterments are capitalized. Upon retirement or other disposal of property, the cost and accumulated depreciation applicable thereto are removed from the accounts, and the resulting profit or loss is credited or charged to income.

**4. License agreement**

In September 1968, the Company entered into an exclusive license agreement for the production rights and sales rights of another company's product. The terms of the agreement require the Company to pay a minimum of \$130,000 over a period of fifty-four months beginning in September 1968. The payments range from \$10,000 paid prior to September 30, 1968 to \$15,000 due in November 1968 and \$35,000 per year for the following three years. The minimum payments will be offset against the maximum payments which are based on percentages of the sales of the product varying from 3½% to 2%.

The cost of the license agreement included among the assets on the accompanying balance sheet will be amortized over its estimated useful life after production commences.

## 5. Long-term debt

At September 30, 1968 and March 31, 1969, long-term debt consisted of the following:

	September 30, 1968	March 31, 1969
4% note payable, secured by equipment, due in monthly installments of \$1,167 until November 1969 .....	\$ 15,622	\$ —
7% note payable, secured by real property, due in monthly installments of \$1,481 including interest until maturity in October 1976 .....	109,530	104,406
7% note payable, secured by real property, due in monthly installments of \$4,266, including interest from August 1969 until maturity in August 1984 .....	767,956	767,956
Subordinated 5% Registered Convertible Debentures, noninterest-bearing until May 1971, due at maturity on May 1, 1976 .....	500,000	500,000
Equipment lease obligations, due in monthly installments, including interest ranging from \$10,037 to \$420 until paid off in 1973, at present value of future payments .....	376,901	321,242
License agreement obligation (see note 4) .....	120,000	105,000
<b>Total</b> .....	<b>1,890,009</b>	<b>1,798,604</b>
Less portion due within one year .....	124,188	120,550
<b>Long-term debt due after one year</b> .....	<b>\$1,765,821</b>	<b>\$1,678,054</b>

The 7% note payable due in 1984 includes covenants which restrict future payments of dividends and net redemptions of capital stock to 50% of consolidated net income after September 30, 1966 and which require the working capital to be at least \$820,000.

The debentures are subordinated to the claims of all contract creditors of the Company. From May 1, 1968 to maturity in 1976, the debentures may be converted into shares of the Company's capital stock at prices decreasing from \$11.08 per share to \$10.21 per share. In addition, at the time of conversion of the debentures, the holders may exercise options to acquire the Company's capital stock at \$11.67 per share. The number of shares subject to option decreases from a maximum of 14,889 to a minimum of 11,019 in proportion to the decrease in the conversion price of the debentures so that the number of shares obtainable upon conversion of the debentures and exercise of the options will not exceed 60,000 shares.

In the year ended September 30, 1967 the Company expanded its facilities by acquisition of land, plant and equipment. Most of the equipment acquired in the expansion was obtained through short-term leases with purchase options for nominal amounts at the end of the lease periods. Because the Company is obtaining an equity interest in the equipment, it has capitalized these leases by recognizing the leasehold interest as an asset at original cost and the present value of future lease payments as a liability. Part of the lease payments is recorded as interest expense and part as a reduction of the liability.

## 6. Federal income tax

The Company provides for U.S. federal income tax which is not presently payable on the income before foreign income tax of its foreign subsidiaries and treats such foreign taxes paid as an offset to the provision for U.S. tax.

The Company accounts for the investment tax credit realized on the flow-through method as a reduction of its provision for federal income taxes. Due to net operating losses for the years ended September 30, 1967 and 1968, a portion of the investment credit claimed in prior years may be carried over for use in future years. The amount of such losses and investment credit which may be carried forward cannot be determined at this time pending the outcome of an examination of the tax returns by the Internal Revenue Service for the years ended September 30, 1967 and 1966 currently in progress.

### 7. Reserved capital stock and stock options

The number of options, shares and prices per share included below have been adjusted for the 3-for-1 stock split effective January 3, 1969.

(a) Officers' and employees' stock options (see note 8)

Stock options have been granted to officers and key employees to purchase shares of the Company's capital stock at the fair market value at the date of grant. These options have been granted, net of subsequent cancellation, in the years ended September 30 as follows: 1966—18,846 shares; 1967—9,750 shares; and 1968—17,214 shares. During the six months ended March 31, 1969 26,919 options were granted, net of subsequent cancellations. The options are exercisable only after the optionee has worked two years from the date of grant and then at the rate of one-third of the aggregate amount on each anniversary date of the option. No portion of the option may be exercised after five years from the date of grant.

The following table summarizes data concerning employee stock options:

	Number of Shares	Option Price		Fair Value	
		Per Share	Total	Per Share	Total
At Date of Grant					
Balance under option at:					
September 30, 1968					
Total .....	44,259	\$ .67-\$3.67	\$131,098	\$ .67-\$3.67	\$131,098
Exercisable .....	5,496	\$ .67-\$3.67	11,332	\$ .67-\$3.67	11,332
March 31, 1969					
Total .....	64,404	\$1.00-\$13.34	\$446,305	\$1.00-\$13.34	\$446,305
Exercisable .....	4,119	\$1.00-\$3.67	9,506	\$1.00-\$3.67	9,506
At Dates First Exercisable					
Options which became exercisable in:					
Years ended September 30,					
1966 .....	18,042	\$ .67-\$1.00	\$ 12,593	\$2.96	\$ 53,464
1967 .....	21,588	\$ .67-\$1.33	19,206	\$3.67	79,156
1968 .....	18,045	\$ .67-\$3.67	28,779	\$9.68	174,615
Six months ended					
March 31, 1969 .....	4,953	\$1.00-\$3.67	8,033	\$13.34	66,073
At Dates Exercised					
Options exercised:					
Years ended September 30,					
1966 .....	15,006	\$ .67-\$1.00	\$ 10,569	\$2.22	\$ 33,363
1967 .....	15,183	\$ .67-\$1.33	12,116	\$3.67	55,671
1968 .....	26,976	\$ .67-\$3.67	29,884	\$5.90	159,248
Six months ended					
March 31, 1969 .....	6,339	\$ .67-\$3.67	9,870	\$13.34	84,562

In the absence of quoted market prices, fair value per share was determined by reference to the price at which options were granted during the indicated years.

At March 31, 1969 there were 130,893 shares reserved for stock options including 64,404 shares for options granted but not exercised and 66,489 shares for options available for granting.

The proceeds upon exercise of the options are credited to the capital stock account in the amount of the par value and the excess is credited to the capital in excess of par value account. No charge has been made to income in accounting for the options.

(b) Employee stock purchase plan

In August 1968, the Board of Directors of the Company reserved 24,000 shares of capital stock for an employee stock purchase plan, subject to the approval of the shareholders to become effective July 1, 1969. After completion of six months of continuous service, each full-time employee will be eligible to subscribe for capital stock and to pay for it through limited payroll deductions at 75% of fair market value at the date of purchase; the remaining 25% will be contributed by the Company.

(c) Other options

As explained in note 5, upon conversion of the subordinated 5% Registered Convertible Debentures, variable stock options may be exercised initially for 14,889 shares and decreasing thereafter to 11,019 shares at \$11.67 per share so that the total capital stock issued upon conversion and exercise of the options will not exceed 60,000 shares. Options to acquire a total of 3,300 shares, which are exercisable at an aggregate amount of \$39,000, have been granted to certain persons who are not directors, officers, or employees of the Company.

## 8. Commitments and contingencies

The Company leases two buildings requiring total annual rentals of approximately \$57,000 extending to 1975. The Company also leases land at an annual rental equivalent to property taxes of approximately \$25,000 to 1971. A portion of these facilities is currently subleased according to a short-term agreement at approximately \$2,900 per month. Certain short-term equipment leases, other than capitalized leases (see note 5), require annual payments over the next three fiscal years of approximately \$77,000, \$54,000, and \$21,000, respectively.

The Company is a defendant in a civil action brought by Research Corporation for patent infringement. The suit seeks an injunction against use of the patent and claims damages in an unspecified amount. Company counsel has advised that in its opinion the suit is without merit. Additional claims of patent infringement have been asserted by two other corporations, but no additional suit has as yet been brought.

The Company has been advised that sales of capital stock of the Company to employees under the Employee Stock Option Plan which were not registered under the Securities Act of 1933, as amended, may not have been exempt from registration under that Act. Although the Company denies any legal liability, it is voluntarily making an offer to refund the original purchase price, plus interest, which would result in a maximum cash outlay of approximately \$95,500. As an alternative, the Company is offering to exchange for certificates presently held, certificates for shares which will be registered under the Act. If the alternative offer is accepted with respect to all certificates presently held, no cash outlay will be required.



## 9. Supplementary Profit and Loss Information

	Year Ended September 30,			Six Months Ended March 31, 1969
	1966	1967	1968	
<b>CHARGED TO COST OF PRODUCTS SOLD:</b>				
Maintenance and repairs .....	\$41,901	\$49,633	\$ 39,496	\$19,459
Depreciation and amortization of property, plant and equipment .....	33,963	63,353	153,918	74,740
Taxes other than federal income tax:				
Property .....	10,787	12,181	31,960	29,917
Payroll .....	34,610	69,638	56,797	36,991
Other .....	2,000	2,316	1,636	800
Rents:				
Plant .....	36,980	61,776	63,040	29,778
Equipment .....	56,970	56,315	64,353	31,842
Royalties .....	—	—	19,605	—
<b>CHARGES TO OTHER EXPENSE CATEGORIES:</b>				
Maintenance and repairs .....	34,402	43,614	25,455	7,711
Depreciation and amortization of property, plant and equipment .....	34,469	64,455	96,275	28,057
Other amortization .....	842	221	1,536	—
Taxes other than federal income tax:				
Property .....	9,120	11,396	20,356	11,332
Payroll .....	55,459	52,225	51,504	24,102
Franchise and other .....	11,953	20,177	2,237	60
Rents:				
Plant .....	31,188	51,574	50,170	12,382
Equipment .....	46,237	62,654	65,460	26,714

No management or service contract fees were paid during the periods.

## 10. Capital stock

Pursuant to shareholder approval granted by written consent on January 2, 1969, the Company on January 3, 1969 filed an amendment to its Articles of Incorporation which increased its authorized shares of capital stock from 1,000,000 shares to 3,000,000 shares and split the outstanding shares of capital stock 3-for-1. Concurrently, the par value per share was reduced from \$1 to \$.33⅓.

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No dealer, salesman or other person has been authorized to give any information or to make any representation not contained in this prospectus, and, if given or made, such information or representation must not be relied upon as having been authorized by the Company or the Underwriters. This prospectus is not an offer to sell, or a solicitation of an offer to buy, by the Underwriters in any state in which it is unlawful for the Underwriters to make such an offer or solicitation.

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Until September 3, 1969 (90 days after the effective date of the registration statement) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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50,000 Shares

## Spectra-Physics, Inc.

Capital Stock  
(\$.33 $\frac{1}{3}$  par value)

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## PROSPECTUS

June 4, 1969

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## HAMBRECHT & QUIST

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BOWNE & Co., INC. OF CALIFORNIA

