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18 **UNITED STATES DISTRICT COURT**  
19 **CENTRAL DISTRICT OF CALIFORNIA**  
20 **WESTERN DIVISION**

21 IN RE OSI SYSTEMS, INC. ) Lead Case No. 14-cv-02910-MWF (MRWx)  
22 DERIVATIVE LITIGATION )  
23 \_\_\_\_\_ ) **DERIVATIVE ACTION**

24 This Document Relates To: )

25 ALL ACTIONS )  
26 \_\_\_\_\_ )

27 **NOTICE OF PENDENCY AND PROPOSED**  
**SETTLEMENT OF SHAREHOLDER DERIVATIVE ACTIONS**

1 **TO: ALL RECORD OR BENEFICIAL OWNERS OF COMMON STOCK OF**  
2 **OSI SYSTEMS, INC. AS OF NOVEMBER 23, 2016 (“CURRENT OSI**  
3 **SHAREHOLDERS”):**

4 **PLEASE READ THIS NOTICE CAREFULLY AND IN ITS ENTIRETY. IT**  
5 **CONTAINS IMPORTANT INFORMATION ABOUT YOUR LEGAL**  
6 **RIGHTS.**

7 **THIS NOTICE RELATES TO A PROPOSED SETTLEMENT OF**  
8 **SHAREHOLDER DERIVATIVE ACTIONS (THE “ACTIONS”) AND**  
9 **CLAIMS ASSERTED ON BEHALF OF OSI SYSTEMS, INC. (“OSI” OR THE**  
10 **“COMPANY”).**

11 **IF THE COURT APPROVES THE SETTLEMENT AND DISMISSAL OF**  
12 **THE ACTIONS, CURRENT OSI SHAREHOLDERS WILL BE FOREVER**  
13 **BARRED FROM CONTESTING THE APPROVAL OF THE PROPOSED**  
14 **SETTLEMENT AND FROM PURSUING THE RELEASED CLAIMS.**

15 **THESE ACTIONS ARE NOT “CLASS ACTIONS.” THUS, THERE IS NO**  
16 **COMMON FUND UPON WHICH YOU CAN MAKE A CLAIM FOR A**  
17 **MONETARY PAYMENT.**

#### 18 **PURPOSE OF THIS NOTICE**

19 This Notice of Pendency and Proposed Settlement of Shareholder Derivative  
20 Actions (the “Notice”) is provided to Current OSI Shareholders pursuant to an order  
21 of the United States District Court for the Central District of California (the “Court”).  
22 This is not a solicitation from a lawyer.

23 The purpose of this Notice is to advise you that, pursuant to the Court’s  
24 Preliminary Approval and Scheduling Order, a hearing will be held on May 1, 2017  
25 at 9:00 a.m., before the Honorable Michael W. Fitzgerald, United States District  
26 Court, 350 West First Street, Los Angeles, California 90012, (or at such a date and  
27 time as the Court may direct without further notice) (the “Settlement Hearing”) to  
28 determine whether: (i) the terms of a proposed settlement (the “Settlement”) of the  
Actions as described below are fair, reasonable, and adequate, and in the best  
interests of OSI; (ii) Plaintiffs’ motion for an award of attorneys’ fees and expenses  
should be approved; and (iii) the service awards to Plaintiffs, as described below,  
should be approved.

1 The terms and conditions of the proposed Settlement are summarized in this  
2 Notice and set forth in full in the Stipulation. You have an opportunity to be heard at  
3 this hearing.

4 The Court has not determined the merits of Plaintiffs' claims or Defendants'  
5 defenses. By this Notice, the Court does not express any opinion as to the merits of  
6 any claim or defense asserted by any party in the Actions.

## 7 **BACKGROUND OF THE ACTIONS**

8 On April 15, 2014, Hagan commenced the first shareholder derivative action  
9 on behalf of OSI and against the Individual Defendants. The *Hagan* action asserted  
10 three claims: (1) breach of fiduciary duties for disseminating false and misleading  
11 information; (2) breach of fiduciary duties for failing to maintain adequate internal  
12 controls; and (3) unjust enrichment.

13 On December 29, 2014, the City of Irving commenced the second shareholder  
14 derivative action on behalf of OSI. City of Irving's complaint followed a shareholder  
15 demand for books and records pursuant to 8 Del. C. § 220 that was made on February  
16 11, 2014. On February 26, 2015, the Court granted the California Plaintiffs' motion  
17 to consolidate the two derivative actions, appointed Hagan and City of Irving as Co-  
18 Lead Plaintiffs, appointed Bottini & Bottini, Inc. The Shuman Law Firm, and Scott +  
19 Scott, Attorneys at Law, LLP as Co-Lead Counsel, and stayed the California Action  
20 pending entry of a ruling on the motion to dismiss in the securities class action  
captioned *Roberti v. OSI Systems, Inc.*, Case No. 13-cv-09174-MWF-VBK (the  
"Federal Securities Class Action"), also assigned to Judge Fitzgerald. The next day,  
on February 27, 2015, Judge Fitzgerald entered an order denying the motion to  
dismiss in the Federal Securities Class Action, which in effect lifted the stay in the  
derivative actions. The California Plaintiffs filed a consolidated complaint on August  
25, 2015.

21 On July 14, 2015, Kocen commenced the third shareholder derivative action on  
22 behalf of OSI in the Delaware Chancery Court. Kocen's complaint followed a  
23 shareholder demand for books and records under 8 Del. C. § 220 on January 31,  
2014, including subsequent follow up demands in 2014 and 2015.

24 The Actions alleged, among other things, that the individual defendants  
25 breached their fiduciary duties as directors and/or officers of OSI by: (1) failing to  
26 correct problems with the Company's internal controls, practices, and procedures; (2)  
27 failing to implement an adequate compliance program at the Company; and (3)  
28 issuing false and misleading statements regarding the existence of an adequate  
compliance program. Specifically, the Actions pertained to certain issues related to

1 Company-division Rapiscan's Automated Target Recognition software and AT-2  
2 baggage scanners. After review of these matters, the Department of Homeland  
3 Security did not suspend or debar the Company or Rapiscan. The Actions asserted  
4 claims for, among other things, breach of fiduciary duty and unjust enrichment under  
5 Delaware law.

6 The Individual Defendants have denied and continue to deny each and all of  
7 the claims alleged or asserted in the Actions. The Individual Defendants have  
8 expressly denied and continue to deny all charges of wrongdoing or liability against  
9 them and maintain that at all times they appropriately and in good faith fulfilled their  
10 fiduciary duties to the Company and its shareholders and complied with all applicable  
11 laws and regulations.

12 On February 10, 2016, Defendants filed a motion to dismiss and in the  
13 alternative a motion to stay the California Action and a motion to dismiss the  
14 Delaware Action. The California Plaintiffs filed an opposition on March 11, 2016,  
15 and Defendants filed their reply on April 1, 2016. The Delaware Plaintiff filed his  
16 opposition on April 4, 2016 and Defendants filed their reply on May 3, 2016. These  
17 motions have not been decided by the court in the California Action or the court in  
18 the Delaware Action.

#### 19 **THE SETTLEMENT DISCUSSIONS**

20 Counsel for the Settling Parties engaged in extensive efforts to resolve this  
21 matter. In early fall 2015, the Parties discussed efforts to reach a global resolution of  
22 the Actions, and ultimately agreed to participate in a mediation in New York, New  
23 York before the Honorable Layn R. Phillips (Ret.).

24 During September 2015, prior to mediation, the Plaintiffs engaged an expert in  
25 corporate governance – Professor Daniel Morrissey of Gonzaga University School of  
26 Law – to review the allegations in their complaint and provide recommendations on  
27 potential governance reforms. In consultation with their expert, the Plaintiffs drafted  
28 a settlement demand that included a set of corporate governance reforms that they  
believed would prevent the reoccurrence of the alleged wrongdoing by Defendants.

The Parties scheduled the mediation before Judge Phillips for December 14,  
2015. Delaware Plaintiff submitted his initial settlement proposal on October 20,  
2015, and California Plaintiffs submitted theirs on October 23, 2015. The Company  
responded on November 3, 2015. On November 10, 2015, Plaintiffs submitted an  
additional counterproposal, to which the Company responded on November 18, 2015.  
After additional telephonic discussion, Plaintiffs cancelled the mediation on the  
grounds that the parties were too far apart in their negotiations.

1 On February 10, 2016, Defendants filed a motion to dismiss and in the  
2 alternative a motion to stay the California Action and a motion to dismiss the  
3 Delaware Action. The California Plaintiffs filed an opposition on March 11, 2016,  
4 and Defendants filed their reply on April 1, 2016. The Delaware Plaintiff filed his  
5 opposition on April 4, 2016 and Defendants filed their reply on May 3, 2016.

6 Around the same time, the parties renewed their settlement discussions in an  
7 attempt to learn whether a reasonable resolution could be reached. On March 18,  
8 2016, the parties participated in an all-day mediation in New York with Judge  
9 Phillips. Substantial negotiations took place throughout the day and numerous drafts  
10 of settlement offers and counteroffers were exchanged. Although the parties reached  
11 agreement on a number of terms for corporate governance reforms, no settlement was  
12 reached. The Settling Parties continued their negotiations in the months following  
13 the mediation and after extensive, arm's-length negotiations reached agreement in  
14 principle on material terms for corporate governance reforms.

15 On July 7, 2016, the California Plaintiffs, Delaware Plaintiff, OSI, and the  
16 Individual Defendants signed a Term Sheet for Settlement of Derivative Actions  
17 ("Term Sheet"). At that time, the Settling Parties had not yet discussed the amount of  
18 attorneys' fees to be paid to Plaintiffs' Counsel (as defined in the Stipulation) for the  
19 benefit conferred upon OSI through the Settlement. On August 23, 2016, the  
20 Delaware Plaintiff moved for voluntary dismissal of the Delaware Action without  
21 prejudice, which was granted.

## 22 **SUMMARY OF SETTLEMENT TERMS**

23 Pursuant to the Settlement of the Actions, after the Judgment becomes final,  
24 OSI shall enact the corporate governance measures ("Settlement Reforms") set forth  
25 in Section 1 of Exhibit A to the Stipulation, to the extent that such Reforms have not  
26 already been adopted and implemented, in accordance with the terms of Exhibit A.  
27 The full text of the Corporate Governance Terms also may be viewed at  
28 <http://investors.osi-systems.com/>. Specifically, OSI has agreed to strengthen  
corporate governance review and training, improve Company's policies and  
procedures concerning the Company's compliance with applicable laws and  
regulations, enhance oversight of the Company's compliance function, add a new  
independent director, add a lead independent director position to the board of  
directors, and revise the clawback and insider-trading policies. These changes and  
enhancements will be made as a result of the Settlement of these Actions and they  
confer a substantial and significant benefit to the Company.

Plaintiffs, OSI, and the Individual Defendants have agreed that the amount of  
the Fee and Expense Award to be paid to Plaintiffs' Counsel in recognition of the  
benefits provided to OSI and OSI shareholders as a result of the initiation,

1 prosecution, pendency, and Settlement of the Actions shall be \$1,600,000. Such  
2 amount has been determined in a binding arbitration conducted by Judge Phillips.  
3 Plaintiffs shall make an omnibus application for fees and expenses before this Court  
4 only, and no other Court. This Settlement is not contingent on an agreement as to the  
5 Fee and Expense Award or an agreement as to the allocation of such a fee between  
6 and among Plaintiffs' counsel. OSI and the Individual Defendants agree not to  
7 oppose any fee and expense application by Plaintiffs' Counsel in an amount not to  
8 exceed \$1,600,000, which was determined by Judge Phillips.

9 Plaintiffs may also apply to the Court for the payment of reasonable service  
10 awards, not to exceed five thousand dollars (\$5,000) to each Plaintiff, in recognition  
11 of their efforts in achieving the benefits for the Company and the Current OSI  
12 Shareholders ("Service Awards"). Any Service Awards approved by this Court shall  
13 be paid from the portion of the Fee and Expense Award distributed to the Plaintiffs'  
14 Counsel. OSI and the Individual Defendants agree not to oppose the payment of such  
15 Service Awards and shall not be liable for any portion thereof.

16 The Settlement calls for Plaintiffs (on behalf of themselves and derivatively, on  
17 behalf of OSI) to release all Released Claims against the Released Persons, as defined  
18 in the Stipulation.

#### 19 **PLAINTIFFS' COUNSEL'S POSITION CONCERNING SETTLEMENT**

20 Plaintiffs' Counsel believe that the Actions have substantial merit, and  
21 Plaintiffs' entry into the Stipulation is not intended to be and shall not be construed as  
22 an admission or concession concerning the relative strength or merit of the claims  
23 alleged in the Actions. However, Plaintiffs and their counsel recognize and  
24 acknowledge the significant risk, expense, and length of continued proceedings  
25 necessary to prosecute the Actions against the Individual Defendants through trial  
26 and through possible appeals. Plaintiffs' Counsel also have taken into account the  
27 uncertain outcome and the risk of any litigation, especially in complex cases such as  
28 the Actions, as well as the difficulties and delays inherent in such litigation.

Plaintiffs' Counsel have conducted an extensive investigation including:  
(1) propounding shareholder books and records inspection demands under 8 Del. C.  
§ 220 to OSI, and receiving and reviewing approximately one thousand pages  
produced by OSI in response to such demands, including board minutes and other  
internal books and records obtained from the Company; (2) reviewing and analyzing  
OSI's public filings with the SEC, press releases, announcements, transcripts of  
investor conference calls, and news articles; (3) reviewing securities analyst,  
business, and financial media reports about the Company; (4) reviewing and  
analyzing filings in the Federal Securities Class Action; (5) researching the applicable  
law with respect to the claims asserted (or which could be asserted) in the Actions

1 and the potential defenses thereto; (6) researching corporate governance issues; (7)  
2 researching, drafting, and filing complaints and opposition to motion to dismiss or  
3 stay; (8) preparing settlement demands and mediation statements; (9) participating in  
4 an all-day mediation; (10) retaining an expert in corporate governance to review the  
5 allegations in the complaint and consulting that expert regarding potential governance  
6 reforms; and (11) engaging in settlement discussions with counsel for OSI and the  
7 Individual Defendants. Based on their thorough review and analysis of the relevant  
8 facts, allegations, defenses, and controlling legal principles, and in light of what  
9 Plaintiffs' Counsel believe to be the significant benefits conferred upon the Company  
10 and its shareholders as a result of the Settlement, Plaintiffs and Plaintiffs' Counsel  
11 have determined that the Settlement is fair, reasonable, and adequate and in the best  
12 interests of OSI and its shareholders, and have agreed to settle the Actions upon the  
13 terms and subject to the conditions set forth in the Stipulation.

### 10 **DEFENDANTS' POSITION CONCERNING SETTLEMENT**

11 Defendants have denied and continued to deny each and all of the claims and  
12 allegations of wrongdoing made by Plaintiffs in the Actions and maintain that they  
13 have meritorious defenses. Each of the Individual Defendants has expressly denied  
14 and continues to deny all charges of wrongdoing or liability against himself or herself  
15 arising out of or relating to the conduct, statements, acts, or omissions alleged, or that  
16 could have been alleged, in the Actions.

17 The Individual Defendants have further asserted that at all times they complied  
18 with all applicable duties, acted in good faith and in a manner they reasonably  
19 believed to be and that was in the best interest of OSI and its shareholders.  
20 Nonetheless, Defendants have concluded that further conduct of the Actions would be  
21 protracted and expensive. Defendants also have taken into account the uncertainty  
22 and risks inherent in any litigation. Defendants therefore have determined that it is  
23 desirable that the Actions be fully and finally settled in the manner and upon the  
24 terms and conditions set forth in the Stipulation.

### 21 **NOTICE OF HEARING ON PROPOSED SETTLEMENT**

22 A Settlement Hearing will be held on May 1, 2017 at 9:00 a.m., before the  
23 Honorable Michael W. Fitzgerald, United States Courthouse, 350 West First Street,  
24 Los Angeles, California 90012 (or at such a date and time as the Court may direct  
25 without further notice), for the purpose of determining: (a) whether the proposed  
26 Settlement, as set forth in the Stipulation, should be approved by the Court as fair,  
27 reasonable, and adequate to OSI and its shareholders, including Plaintiffs; (b)  
28 whether the Notice fully satisfied the requirements of F.R.C.P. 23.1 and due process;  
(c) whether the Judgment should be entered dismissing the California Action with  
prejudice and directing Delaware Plaintiff to file dismissal with prejudice of the  
Delaware Action as against the Individual Defendants and the Company pursuant to

1 the Stipulation and releasing the Released Persons from the Released Claims; (d)  
2 whether the payment of the Fee and Expense Award and Service Awards should be  
3 approved; and (e) any other matters that come before the Court.

4 The Court may adjourn the Settlement Hearing by oral or other announcement  
5 at such hearing or any adjournment without further notice of any kind. The Court  
6 may approve the Settlement with or without modification, enter the Judgment, and  
7 order the payment of the Fee and Expense Award without further notice of any kind.

8 **THE RIGHT TO BE HEARD AT THE SETTLEMENT HEARING**

9 Any Current OSI Shareholder may appear and show cause, if he, she, or it has  
10 any reason why the Settlement of the Actions embodied in the Stipulation should not  
11 be approved as fair, reasonable, and adequate, or why the Judgment should or should  
12 not be entered hereon, or why the Fee and Expense Award or Service Awards should  
13 not be awarded. To object, the shareholder must: (a) file a written objection, stating  
14 the case name and number, *In re OSI Systems Inc. Derivative Litigation*, Case No. 14-  
15 cv-02910, and stating all reasons for the objection; (b) give proof of current  
16 ownership of OSI stock as well as documentary evidence of when such stock  
17 ownership was acquired; (c) clearly identify and provide any and all evidence in  
18 support of such objections; and (d) identify any case, by name, court, and docket  
19 number, in which the objector or his, her, or its attorney, if any, has objected to a  
20 settlement in any shareholder class action or derivative action in the last three years.  
21 Any written objections shall be filed with Clerk of the Court at least fourteen (14)  
22 days prior to the Settlement Hearing, at the below address:

23 **CLERK OF THE COURT**  
24 United States Courthouse  
25 350 West First Street  
26 Los Angeles, California 90012

27 and copies of such objections shall be served at the same time upon the following by  
28 first-class mail:

**Counsel for Plaintiffs:**

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9 LAW, LLP  
10 655 North Central Ave., 17th Floor  
11 Glendale, CA 92103  
12 Telephone: 213/985-1274  
13 Facsimile: 213/985-1278

14 Any Current OSI Shareholder wishing to be heard at the Settlement Hearing is  
15 required to include a notice of intention to appear at the Settlement Hearing together  
16 with his, her, or its written objection.

17 Any Current OSI Shareholder who does not make his, her, or its objection in  
18 the manner provided in the preceding paragraph of this Notice shall be bound by the  
19 Judgment entered and the releases to be given, and deemed to have waived such  
20 objection and shall forever be foreclosed from: (a) making any objections to the  
21 fairness, adequacy, or reasonableness of the Settlement; or (b) making any objections  
22 to the fairness and reasonableness of the Fee and Expense Award or Service Awards.

### 23 **FURTHER INFORMATION**

24 Further information regarding the Actions and this Notice may be obtained by  
25 writing Plaintiffs' Counsel at the following address: Francis A. Bottini, Jr., Bottini &  
26 Bottini, Inc., 7817 Ivanhoe Ave., Suite 102, La Jolla, California 92037.

27 The pleadings and other records of the Actions as well as the Stipulation filed  
28 with the Court may be examined and copied at any time during regular office hours at  
the Office of the Clerk, United States Courthouse, 350 West First Street, Los  
Angeles, California, 90012. Additionally, the Stipulation, Exhibit A to the  
Stipulation, and this Notice may be examined at the following website:  
<http://investors.osi-systems.com/>.

**PLEASE DO NOT TELEPHONE THE COURT OR THE CLERK'S OFFICE  
REGARDING THIS NOTICE.**