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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:

Francis A. Bottini, Jr.
BOTTINI & BOTTINI, INC.
7817 Ivanhoe Ave., Suite 102
La Jolla, CA 92037
Telephone: 858/914-2001
Facsimile: 858/914-2002

Kip B. Shuman

Counsel for Defendants:

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2 THE SHUMAN LAW FIRM
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7 John T. Jasnoch
8 SCOTT+SCOTT, ATTORNEYS AT
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.**