
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2015

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 000-23125

OSI SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

33-0238801

(I.R.S. Employer
Identification No.)

**12525 Chadron Avenue
Hawthorne, California 90250**

(Address of principal executive offices) (Zip Code)

(310) 978-0516

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

(Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 27, 2015, there were 19,722,098 shares of the registrant's common stock outstanding.

OSI SYSTEMS, INC.

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OSI SYSTEMS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (amounts in thousands, except share amounts)

	June 30, 2015	(Unaudited) September 30, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 47,593	\$ 80,930
Accounts receivable, net	178,519	164,755
Inventories	230,421	260,457
Deferred taxes	44,887	44,886
Prepaid expenses and other current assets	40,101	45,102
Total current assets	541,521	596,130
Property and equipment, net	225,703	207,625
Goodwill	98,167	97,815
Intangible assets, net	50,413	50,215
Other assets	63,870	63,039
Total assets	\$ 979,674	\$ 1,014,824
LIABILITIES AND STOCKHOLDERS’ EQUITY		
CURRENT LIABILITIES:		
Bank lines of credit	\$ —	\$ 45,000
Current portion of long-term debt	2,801	2,776
Accounts payable	61,932	85,728
Accrued payroll and related expenses	33,169	29,343
Advances from customers	41,389	42,435
Deferred revenue	47,787	42,347
Income taxes payable	9,610	13,627
Other accrued expenses and current liabilities	52,593	47,736
Total current liabilities	249,281	308,992
Long-term debt	8,556	7,834
Advances from customers	25,000	18,750

Deferred income taxes	65,435	65,429
Other long-term liabilities	49,623	49,872
Total liabilities	<u>397,895</u>	<u>450,877</u>
Commitments and contingencies (Note 7)		
Stockholders' Equity:		
Preferred stock, \$0.001 par value—authorized, 10,000,000 shares; no shares issued or outstanding	—	—
Common stock, \$0.001 par value—authorized, 100,000,000 shares; issued and outstanding, 19,716,507 shares at June 30, 2015 and 19,722,098 shares at September 30, 2015	279,212	252,224
Retained earnings	312,831	323,636
Accumulated other comprehensive loss	(10,264)	(11,913)
Total stockholders' equity	<u>581,779</u>	<u>563,947</u>
Total liabilities and stockholders' equity	<u>\$ 979,674</u>	<u>\$ 1,014,824</u>

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands, except per share data)
(Unaudited)

	For the Three Months Ended September 30,	
	2014	2015
Net revenues:		
Products	\$ 156,488	\$ 135,501
Services	61,909	64,549
Total net revenues	<u>218,397</u>	<u>200,050</u>
Cost of goods sold:		
Products	107,424	94,317
Services	36,731	37,762
Total cost of goods sold	<u>144,155</u>	<u>132,079</u>
Gross profit	<u>74,242</u>	<u>67,971</u>
Operating expenses:		
Selling, general and administrative	44,182	40,393
Research and development	12,670	11,881
Restructuring and other charges	726	—
Total operating expenses	<u>57,578</u>	<u>52,274</u>
Income from operations	<u>16,664</u>	<u>15,697</u>
Interest and other expense, net	(864)	(794)
Income before income taxes	<u>15,800</u>	<u>14,903</u>
Provision for income taxes	4,551	4,098
Net income	<u>\$ 11,249</u>	<u>\$ 10,805</u>
Earnings per share:		
Basic	<u>\$ 0.57</u>	<u>\$ 0.55</u>
Diluted	<u>\$ 0.55</u>	<u>\$ 0.53</u>
Shares used in per share calculation:		
Basic	<u>19,820</u>	<u>19,734</u>
Diluted	<u>20,529</u>	<u>20,474</u>

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(amounts in thousands)
(Unaudited)

	For the Three Months Ended September 30,	
	2014	2015
Net income	\$ 11,249	\$ 10,805
Other comprehensive income (loss):		
Foreign currency translation adjustment	(2,698)	(1,628)
Other	126	(21)
Other comprehensive loss	<u>\$ (2,572)</u>	<u>\$ (1,649)</u>
Comprehensive income	<u>\$ 8,677</u>	<u>\$ 9,156</u>

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(Unaudited)

	For the Three Months Ended September 30,	
	2014	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 11,249	\$ 10,805
Adjustments to reconcile net income to net cash provided by operating activities, net of effects from acquisitions:		
Depreciation and amortization	17,741	14,063
Stock based compensation expense	5,995	4,465
Other	69	(295)
Changes in operating assets and liabilities—net of business acquisitions:		
Accounts receivable	30,159	13,467
Inventories	(29,381)	(23,575)
Accounts payable	2,933	23,933
Accrued payroll and related expenses	(4,008)	(3,448)
Advances from customers	(855)	(5,189)
Deferred revenue	(3,382)	(5,390)
Other	933	(4,024)
Net cash provided by operating activities	31,453	24,812
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(3,136)	(2,503)
Acquisition of businesses, net of cash acquired	(10,869)	(782)
Acquisition of intangible and other assets	(1,063)	(958)
Net cash used in investing activities	(15,068)	(4,243)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings on bank lines of credit	6,000	45,000
Proceeds from long-term debt	516	34
Payments on long-term debt	(815)	(690)
Proceeds from exercise of stock options and employee stock purchase plan	209	3,067
Repurchase of common shares	(18,373)	(21,471)
Taxes paid related to net share settlement of equity awards	(6,552)	(13,049)
Net cash provided by (used in) financing activities	(19,015)	12,891
Effect of exchange rate changes on cash	1,073	(123)
Net increase (decrease) in cash and cash equivalents	(1,557)	33,337
Cash and cash equivalents—beginning of period	38,831	47,593
Cash and cash equivalents—end of period	\$ 37,274	\$ 80,930
Supplemental disclosure of cash flow information:		
Interest	\$ 696	\$ 305
Income taxes	\$ 1,735	\$ 5,221

See accompanying notes to condensed consolidated financial statements.

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OSI SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation
Description of Business

OSI Systems, Inc., together with its subsidiaries (the “Company”), is a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. The Company sells its products and provides related services in diversified markets, including homeland security, healthcare, defense and aerospace.

The Company has three reporting segments: (i) Security, providing security inspection systems, turnkey security screening solutions and related services; (ii) Healthcare, providing patient monitoring, diagnostic cardiology, anesthesia systems and defibrillator products, and related services and (iii) Optoelectronics and Manufacturing, providing specialized electronic components and electronic manufacturing services for the Security and Healthcare divisions as well as to external original equipment manufacturing clients for applications in the defense, aerospace, medical and industrial markets, among others.

Through its Security division, the Company provides security screening products and related services globally. These products fall into the following categories: baggage and parcel inspection; cargo and vehicle inspection; hold (checked) baggage screening; people screening; radiation detection; and explosive and narcotics trace detection. In addition to these products, the Company provides site design, installation, training and technical support services to its customers. The Company also provides turnkey security screening solutions, which can include the construction, staffing and long-term operation of security screening checkpoints for its customers.

Through its Healthcare division, the Company designs, manufactures, markets and services patient monitoring, diagnostic cardiology, anesthesia delivery and ventilation systems, defibrillator products, and related supplies and accessories worldwide. These products are used by care providers in critical care, emergency and perioperative areas within hospitals as well as physicians' offices, medical clinics and ambulatory surgery centers; the defibrillators are also used in public facilities.

Through its Optoelectronics and Manufacturing division, the Company designs, manufactures and markets optoelectronic devices and provides electronics manufacturing services worldwide for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostic products, telecommunications, computer peripherals, industrial automation systems, automotive diagnostic systems, gaming systems and consumer products. This division provides products and services to original equipment manufacturers and end users as well as to the Company's own Security and Healthcare divisions.

Basis of Presentation

The condensed consolidated financial statements include the accounts of OSI Systems, Inc. and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to interim financial reporting guidelines. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations. In the opinion of the Company's management, the condensed consolidated financial statements include all adjustments, consisting of only normal and recurring adjustments, necessary for a fair presentation of the financial position and the results of operations for the periods presented. These condensed consolidated financial statements and the accompanying notes should be read in conjunction with the audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015. The results of operations for the three months ended September 30, 2015 are not necessarily indicative of the operating results to be expected for the full 2016 fiscal year or any future periods.

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Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and costs of sales during the reporting period. The most significant of these estimates and assumptions for the Company relate to contract revenue, profit and loss recognition, fair values of assets acquired and liabilities assumed in business combinations, market values for inventories reported at lower of cost or market, stock-based employee compensation expense, income taxes, accrued product warranty costs, and the recoverability, useful lives and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the periods during which they become known. Actual amounts will differ from these estimates and could differ materially.

Per Share Computations

The Company computes basic earnings per share by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. The Company computes diluted earnings per share by dividing net income available to common stockholders by the sum of the weighted average number of common and dilutive potential common shares outstanding. Potential common shares consist of the shares issuable upon the exercise of stock options and restricted stock or unit awards under the treasury stock method. Stock awards to purchase 0.1 million shares of common stock for the three months ended September 30, 2015 and September 30, 2014, respectively, were excluded from the calculation because to do so would have been antidilutive.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2014	2015
Net income available to common stockholders	\$ 11,249	\$ 10,805
Weighted average shares outstanding—basic	19,820	19,734
Dilutive effect of stock awards	709	740
Weighted average shares outstanding—diluted	20,529	20,474
Basic earnings per share	\$ 0.57	\$ 0.55
Diluted earnings per share	\$ 0.55	\$ 0.53

Reclassifications

Certain reclassifications have been made to prior-year amounts within the condensed consolidated statement of cash flows to conform to the current year's presentation.

Cash Equivalents

The Company considers all highly liquid investments purchased with maturities of approximately three months or less as of the acquisition date to be cash equivalents.

Fair Value of Financial Instruments

The Company's financial instruments consist primarily of cash, marketable securities, derivative instruments, accounts receivable, accounts payable and debt instruments. The carrying values of financial instruments, other than long-term debt instruments, are representative of their fair values due to their short-term maturities. The carrying values of the Company's long-term debt instruments are considered to approximate their fair values because the interest rates of these instruments are variable or comparable to current rates offered to the Company.

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Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. "Level 1" category includes assets and liabilities at the quoted prices in active markets for identical assets and liabilities. "Level 2" category includes assets and liabilities from observable inputs other than quoted market prices. "Level 3" category includes assets and liabilities whose valuation techniques are unobservable and significant to the fair value measurement. There were no assets or liabilities where "Level 3" valuation techniques were used, and there were no assets and liabilities measured at fair value on a non-recurring basis.

The fair values of the Company's financial assets and liabilities as of June 30, 2015 and September 30, 2015 are categorized as follows (in thousands):

	Level 1	Level 2	June 30, 2015	Level 1	Level 2	September 30, 2015
Equity securities	291	2,150	2,441	182	2,150	2,332
Insurance company contracts	—	20,100	20,100	—	19,246	19,246
Derivative contracts	—	(41)	(41)	—	(21)	(21)
Total	\$ 291	\$ 22,209	\$ 22,500	\$ 182	\$ 21,375	\$ 21,557

Derivative Instruments and Hedging Activity

The Company's use of derivatives consists of an interest rate swap agreement. The interest rate swap agreement was entered into to improve the predictability of cash flows from interest payments related to variable, London Interbank Offered Rate ("LIBOR")-based debt entered to finance acquisition of land and a building in the state of Washington. The interest rate swap is for the duration of this term loan which matures in October 2019. The interest rate swap is considered an effective cash flow hedge, and, as a result, the net gains or losses on such instrument were reported as a component of Other comprehensive income in the condensed consolidated financial statements and are reclassified as net income when the hedge transaction settles.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are charged while assets are used in service and are computed using the straight line method over the estimated useful lives of the assets taking into consideration any salvage value. Amortization of leasehold improvements is calculated on the straight line basis over the shorter of the useful life of the asset or the lease term. Leased capital assets are included in property and equipment. Amortization of property and equipment under capital leases is included with depreciation expense. In the event that property and equipment for turnkey screening operations are idle as a result of the early termination, non-renewal or reduction in scope of the related project, such assets are assessed for impairment on a periodic basis or if indicators of impairment exist. Certain fixed assets related to the Company's turnkey security screening program in Mexico are not currently in use. As of September 30, 2015 the approximate net value of these assets is \$19.9 million and is included in property and equipment in the condensed consolidated balance sheet.

Revenue Recognition

The Company recognizes revenue from sales of products upon shipment when title and risk of loss passes, and when terms are fixed and collection is probable. Revenue from services includes after-market services, installation and implementation of products, and turnkey security screening services. The portion of revenue for the sale attributable to installation is deferred and recognized when the installation service is provided. In an instance where terms of sale include subjective customer acceptance criteria, revenue is deferred until the Company has achieved the acceptance criteria. Concurrent with the shipment of the product, the Company accrues estimated product return reserves and warranty expenses. Critical judgments made by management related to revenue recognition include the determination of whether or not customer acceptance criteria are perfunctory or inconsequential. The determination of whether or not customer acceptance terms are perfunctory or inconsequential impacts the amount and timing of revenue recognized. Critical judgments also include estimates of warranty reserves, which are established based on historical experience and knowledge of the product under warranty.

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Revenue from turnkey services agreements is included in revenue from services. In certain agreements, revenue is recognized based upon proportional performance, measured by the actual number of hours incurred divided by the total estimated number of hours for the project. The impact of changes in the estimated hours to service the agreement is reflected in the period during which the change becomes known. Deferred revenue for such agreements arises when payments from customers are received in advance of revenue recognition.

Revenues from out of warranty service maintenance contracts are recognized ratably over the term of such contract. For services not derived from specific maintenance contracts, revenues are recognized as the services are performed. Deferred revenue for such services arises from payments received from customers for services not yet performed. On occasion, the Company receives advances from customers that are amortized against future customer payments pursuant to the underlying agreements. Such advances are classified in the condensed consolidated balance sheets as either a current or long term liability dependent upon when the Company estimates the corresponding amortization to occur.

Business Combinations

During the normal course of business the Company makes acquisitions. In the event that an individual acquisition (or an aggregate of acquisitions) is material, appropriate disclosure of such acquisition activity is provided. There were no acquisitions during the three months ended September 30, 2015.

In May 2014, the Financial Accounting Standards Board issued an accounting standards update amending revenue recognition requirements for multiple deliverable revenue arrangements. This update provides guidance on how revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. This determination is made in five steps: (i) identify the contract with the customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The effective date was amended in August 2015 for annual reporting periods beginning after December 15, 2017 and for interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has not yet selected a transition method and is currently evaluating the impact it may have on its financial condition and results of operations.

In July 2015, the Financial Accounting Standards Board issued an accounting standards update amending some of the guidance on subsequent measurement of inventory. This standard affects companies that are using first-in, first-out (FIFO) or average cost, or any other methods besides last-in, first out (LIFO) or the retail inventory method. The amendments in this update are effective for fiscal years beginning after December 15, 2016, including interim reporting periods within that reporting period. The amendments in this update should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company has not yet adopted nor selected a transition method and is currently evaluating the impact it may have on its financial condition and results of operations.

In September 2015, the Financial Accounting Standards Board issued an accounting standards update simplifying for measurement-period adjustments for acquisitions. This update provides guidance on how an acquirer recognizes adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. This amendment requires the adjustment to be made in the same period's financial statements the effects of the adjustments and to be presented separately on the face of the income statement or footnote disclosure. The effective date for public business entities is for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years.

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2. Balance Sheet Details

The following tables provide details of selected balance sheet accounts (in thousands):

		June 30, 2015	September 30, 2015
Accounts receivable		\$ 184,419	\$ 170,081
Less allowance for doubtful accounts		(5,900)	(5,326)
Total		<u>\$ 178,519</u>	<u>\$ 164,755</u>

		June 30, 2015	September 30, 2015
Raw materials		\$ 131,373	\$ 147,303
Work-in-process		45,386	40,051
Finished goods		53,662	73,103
Total		<u>\$ 230,421</u>	<u>\$ 260,457</u>

	Estimated Useful Lives	June 30, 2015	September 30, 2015
Land	N/A	\$ 14,419	\$ 14,488
Buildings, civil works and improvements	5 - 40 years	170,373	169,953
Leasehold improvements	1 - 20 years	9,991	9,142
Equipment and tooling	3 - 10 years	152,518	145,526
Furniture and fixtures	3 - 13 years	3,475	3,425
Computer equipment	1 - 5 years	17,147	18,103
Computer software	3 - 10 years	16,612	16,549
Construction in process	N/A	6,365	6,373
Total		390,900	383,559
Less accumulated depreciation and amortization		(165,197)	(175,934)
Property and equipment, net		<u>\$ 225,703</u>	<u>\$ 207,625</u>

Depreciation expense was \$16.9 million and \$13.0 million for the three months ended September 30, 2014 and 2015, respectively.

3. Goodwill and Intangible Assets

The changes in the carrying value of goodwill for the three month period ended September 30, 2015 are as follows (in thousands):

	Security Division	Healthcare Division	Optoelectronics and Manufacturing Division	Consolidated
Balance as of June 30, 2015	\$ 29,730	\$ 43,182	\$ 25,255	\$ 98,167
Foreign currency translation adjustment	9	(111)	(250)	(352)
Balance as of September 30, 2015	<u>\$ 29,739</u>	<u>\$ 43,071</u>	<u>\$ 25,005</u>	<u>\$ 97,815</u>

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Intangible assets consisted of the following (in thousands):

	Weighted Average Lives	June 30, 2015			September 30, 2015		
		Gross Carrying Value	Accumulated Amortization	Intangibles Net	Gross Carrying Value	Accumulated Amortization	Intangibles Net
Amortizable assets:							
Software development costs	8 years	\$ 24,631	\$ 7,500	\$ 17,131	\$ 19,670	\$ 2,472	\$ 17,198
Patents	17 years	7,206	994	6,212	7,466	1,056	6,410
Developed technology	11 years	13,397	4,528	8,869	13,636	4,854	8,782
Customer relationships/backlog	7 years	8,619	3,406	5,213	8,557	3,696	4,861
Total amortizable assets		53,853	16,428	37,425	49,329	12,078	37,251
Non-amortizable assets:							
Trademarks		12,988	—	12,988	12,964	—	12,964
Total intangible assets		\$ 66,841	\$ 16,428	\$ 50,413	\$ 62,293	\$ 12,078	\$ 50,215

Amortization expense related to intangible assets was \$0.8 million and \$1.1 million for the three months ended September 30, 2014 and 2015, respectively. At September 30, 2015, the estimated future amortization expense was as follows (in thousands):

2016 (remaining 9 months)	\$ 4,302
2017	5,136
2018	5,170
2019	5,208
2020	3,907
2021	3,753
2022 and thereafter, including assets that have not yet begun to be amortized	9,775
Total	\$ 37,251

Software development costs for software products incurred before establishing technological feasibility are charged to operations. Software development costs incurred after establishing technological feasibility are capitalized on a product by product basis until the product is available for general release to customers at which time amortization begins. Annual amortization, charged to cost of goods sold, is the amount computed using the ratio that current revenues for a product bear to the total current and anticipated future revenues for that product. In the event that future revenues are not estimable, such costs are amortized on a straight line basis over the remaining estimated economic life of the product. Amortizable assets that have not yet begun to be amortized are included in thereafter in the table above. For the three months ended September 30, 2014 and 2015, the Company capitalized software development costs in the amount of \$0.6 million and \$0.4 million, respectively.

4. Borrowings

The Company has a \$450 million credit agreement maturing in May 2019. The credit agreement consists of a \$450 million revolving credit facility, including a \$375 million sub-limit for letters of credit. The Company has the ability to increase the facility by \$200 million under certain circumstances. Borrowings under this facility bear interest at LIBOR plus a margin of 1.25% as of September 30, 2015. This margin is determined by the Company's consolidated leverage ratio and may range from 1.25% to 2.0%. Letters of credit reduce the amount available to borrow by their face value. As of September 30, 2015, the unused portion of the facility bears a commitment fee of 0.20%, but can range from 0.20% to 0.35% based on the Company's consolidated leverage ratio. The Company's borrowings under the credit agreement are guaranteed by the Company's U.S.-based subsidiaries and are secured by substantially all of the Company's and certain subsidiaries' assets. The agreement contains various representations, warranties, affirmative, negative and financial covenants, and conditions of default customary for financing agreements of this type. As of September 30, 2015, there was \$45.0 million outstanding under the revolving credit facility and \$6.1 million outstanding under the letters-of-credit sub-facility.

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Several of the Company's foreign subsidiaries maintain bank lines-of-credit, denominated in local currencies and U.S. dollars, to meet short-term working capital requirements and for the issuance of letters-of-credit. As of September 30, 2015, \$49.2 million was outstanding under these letter-of-credit facilities, while no debt was outstanding. As of September 30, 2015, the total amount available under these credit facilities was \$8.3 million, with a total cash borrowing sub-limit of \$1.5 million.

In September 2012, the Company entered into a term loan agreement for \$11.1 million to fund the acquisition of land and a building in the state of Washington. The loan, which bears interest at LIBOR plus 1.25%, is payable on a monthly basis over seven years. Concurrent with entering into the floating rate loan, the Company entered into an interest rate swap agreement that effectively locks the interest rate of the loan to 2.2% per annum for the term of the loan.

Long-term debt consisted of the following (in thousands):

	June 30, 2015	September 30, 2015
Term loans	\$ 8,935	\$ 8,414
Other long-term debt	2,422	2,196
	11,357	10,610
Less current portion of long-term debt	2,801	2,776
Long-term portion of debt	\$ 8,556	\$ 7,834

5. Stockholders' Equity

Stock-based Compensation

As of September 30, 2015, the Company maintained two share-based employee compensation plans (the “OSI Plans”): the 2012 Incentive Award Plan (“2012 Plan”) and the Amended and Restated 2006 Equity Participation Plan (“2006 Plan”). Upon stockholder approval of the 2012 Plan, the Company ceased to make grants under the 2006 Plan.

The Company recorded stock-based compensation expense in the condensed consolidated statements of operations as follows (in thousands):

	Three Months Ended September 30,	
	2014	2015
Cost of goods sold	\$ 205	\$ 292
Selling, general and administrative	5,763	4,108
Research and development	27	65
Stock based compensation expense	5,995	4,465
Less: Related income tax benefit	2,406	1,699
Stock based compensation expense, net	<u>\$ 3,589</u>	<u>\$ 2,766</u>

As of September 30, 2015, total unrecognized compensation cost related to share-based compensation grants were estimated at \$1.3 million for stock options and \$26.9 million for restricted stock and restricted stock units (“RSUs”) under the OSI Plans. The Company expects to recognize these costs over a weighted-average period of 1.9 years.

The following summarizes stock option activity during the three months ended September 30, 2015:

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	Number of Options	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at June 30, 2015	1,012,650	\$ 27.30		
Granted	33,088	\$ 74.48		
Exercised	(57,731)	\$ 27.03		
Expired or forfeited	(3,087)	\$ 63.48		
Outstanding at September 30, 2015	<u>984,920</u>	<u>\$ 28.79</u>	<u>4.7 years</u>	<u>\$ 47,444</u>
Exercisable at September 30, 2015	<u>904,813</u>	<u>\$ 25.39</u>	<u>4.3 years</u>	<u>\$ 46,662</u>

The following summarizes restricted stock and RSU award activity during the three months ended September 30, 2015:

	Shares	Weighted-Average Fair Value
Nonvested at June 30, 2015	659,906	\$ 63.75
Granted	329,185	\$ 73.15
Vested	(378,470)	\$ 65.49
Forfeited	(41,707)	\$ 67.62
Nonvested at September 30, 2015	<u>568,914</u>	<u>\$ 67.75</u>

As of September 30, 2015, there were 2,778,349 shares available for grant under the 2012 Plan. Under the terms of that plan, restricted stock and RSUs granted from the pool of shares available for grant on or after December 12, 2012 reduce the pool by 1.87 shares for each award granted. Restricted stock and RSUs forfeited and returned to the pool of shares available for grant increase the pool by 1.87 shares for each award forfeited.

The Company granted 151,469 and 139,300 performance-based RSUs during the three months ended September 30, 2014 and 2015, respectively. These performance-based RSUs are contingent on the achievement of certain financial performance metrics. The payout can range from zero to 250% of the original number of shares or units awarded.

Share Repurchase Program

In March 1999, the Board of Directors authorized a stock repurchase program of up to 2 million shares. In both September 2004 and April 2013, the Board of Directors authorized an additional 1 million shares for repurchase pursuant to this program. As of September 30, 2015, there were 479,764 of available shares that may be repurchased under this program. In October 2015, the Board of Directors authorized an additional 500,000 shares for repurchase pursuant to this program. This program does not have an expiration date. Upon repurchase, the shares are restored to the status of authorized but unissued, and we record them as a reduction in the number of shares of common stock issued and outstanding in the consolidated financial statements.

6. Retirement Benefit Plans

The Company sponsors various retirement benefit plans including qualified and nonqualified defined benefit pension plans for its employees. The components of net periodic pension expense are as follows (in thousands):

	Three Months Ended September 30,	
	2014	2015
Service cost	\$ 288	\$ 204
Interest cost	—	9
Amortization of prior service cost	202	105
Net periodic pension expense	<u>\$ 490</u>	<u>\$ 318</u>

For the three months ended September 30, 2014, the Company made contributions of \$1.0 million to these defined benefit plans; while no contributions were made during the three months ended September 30, 2015.

In addition, the Company maintains various defined contribution plans. For the three months ended September 30, 2014 and 2015, the Company made contributions of \$1.2 and \$1.1 million, respectively, to these defined contribution plans.

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7. Commitments and Contingencies

Contingent Acquisition Obligations

Under the terms and conditions of the purchase agreements associated with certain acquisitions, the Company may be obligated to make additional payments based on the achievement by the acquired operations of certain sales or profitability milestones. The maximum amount of such future payments under arrangements with contingent consideration caps is \$27 million as of September 30, 2015. In addition, one of the purchase agreements the Company entered into requires royalty payments through 2022 based on the license of, or sales of products containing the technology of CXR Limited, a company acquired in 2004. For acquisitions that occurred prior to fiscal year 2010, the Company accounts for such contingent payments as an addition to the purchase price of the acquired business. Otherwise, the estimated fair value of these obligations is recorded as a liability at the time of the acquisition in the condensed consolidated balance sheets with subsequent revisions reflected in the condensed consolidated statements of operations. As of June 30, 2015 and September 30, 2015, \$17.2 million and \$12.7 million of contingent payment obligations, respectively, are included in other liabilities in the accompanying condensed consolidated balance sheets. During the three months ended September 30, 2015, approximately \$0.8 million of contingent consideration was paid and the liability was reduced by \$3.7 million due to revaluation.

Advances from Customers

The Company receives advances from customers associated with certain projects. In fiscal 2012, the Company entered into an agreement with the Mexican government to provide a turnkey security screening solution along the country's borders, and in its ports and airports. Associated with the agreement, the Company was provided an advance totaling \$100 million that is scheduled to become fully amortized in fiscal 2017. As of September 30, 2015, \$43.8 million of this advance remains outstanding.

Environmental Contingencies

The Company is subject to various environmental laws. The Company's practice is to conduct appropriate environmental investigations at its manufacturing facilities in North America, Asia Pacific, and Europe, and, to the extent practicable, on all new properties in order to identify, as of the date of such report, potential areas of environmental concern related to past and present activities or from nearby operations. In certain cases, the Company has conducted further environmental assessments consisting of soil and groundwater testing and other investigations deemed appropriate by independent environmental consultants.

During one investigation at the Company's Hawthorne, California facility, the Company discovered soil and groundwater contamination that it believes was the result of unspecified on- and off-site releases occurring prior to the Company's occupancy. Historical usage of this site includes semiconductor and electronics manufacturing, dating back to the mid-1960s, as well as possible aircraft and related manufacturing dating to the early 1940s. Similar operations, including chemical manufacturing and storage, were conducted at neighboring sites throughout that period and into the 1990s. It is not presently known when the releases occurred or by whom they were caused, though Company records, in conjunction with data obtained from soil and groundwater surveys, support the Company's assertion that these releases are historical in nature. Further, the groundwater contamination is a known regional issue, not limited to the Company's premises or its immediate surroundings. The Company has filed all requisite reports with the appropriate environmental authorities and continues to cooperate with the local governing agency to develop a complete and accurate characterization of this site. Recent activities include the installation of groundwater monitoring wells, indoor air quality monitoring and additional soil and soil vapor studies. Results from these studies are being evaluated to determine the extent of the on-site releases as well as appropriate and cost-effective remedial action measures. Periodic groundwater monitoring is expected to continue until such time as the governing authority requests further action.

The Company has not accrued for loss contingencies relating to the Hawthorne facility or any other environmental matters because it believes that, although unfavorable outcomes may be possible, they are not considered by the Company's management to be probable and reasonably estimable. If one or more of environmental matters are resolved in a manner adverse to the Company, the impact on the Company's business, financial condition, results of operations, financial position and/or liquidity could be material.

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Indemnifications

In the normal course of business, the Company has agreed to indemnify certain parties with respect to certain matters. The Company has agreed to hold certain parties harmless against losses arising from a breach of representations, warranties or covenants, or out of intellectual property infringement or other claims made by third parties. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers. It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. The Company has not recorded any liability for costs related to indemnification as of September 30, 2015.

Product Warranties

The Company offers its customers warranties on many of the products that it sells. These warranties typically provide for repairs and maintenance of the products if problems arise during a specified time period after original shipment. Concurrent with the sale of products, the Company records a provision for

estimated warranty expenses with a corresponding increase in cost of goods sold. The Company periodically adjusts this provision based on historical experience and anticipated expenses. The Company charges actual expenses of repairs under warranty, including parts and labor, to this provision when incurred.

The following table presents changes in warranty provisions (in thousands):

	Three Months Ended September 30,	
	2014	2015
Balance at beginning of period	\$ 11,923	\$ 12,738
Additions and adjustments	847	3,607
Reductions for warranty repair costs	(870)	(3,033)
Balance at end of period	<u>11,900</u>	<u>\$ 13,312</u>

Legal Proceedings

On December 12, 2013, a class action complaint was filed against the Company and certain of its officers in the United States District Court for the Central District of California (the “Court”) captioned *Roberti v. OSI Systems, Inc., et al.* (the “Securities Class Action”). The Amended Complaint in the Securities Class Action, filed on May 20, 2014, alleges that the Company and the individual defendants violated the Exchange Act by misrepresenting or failing to disclose facts concerning the status of the Security division’s efforts to develop automated threat recognition software and the alleged use of unapproved parts in its baggage scanning systems in violation of its contract with the U.S. Transportation Security Administration (the “TSA”). The Amended Complaint also asserts that the individual defendants allegedly sold stock based on material non-public information. Following a mediation and further post-mediation settlement discussions, the parties to the litigation accepted settlement terms proposed by the mediator and entered into a stipulation and agreement of settlement (the “Settlement”), which was filed with the Court on August 21, 2015. The Settlement provides for the resolution of all of the pending claims in the Securities Class Action. The Company and the other defendants agreed to the Settlement Agreement to avoid further expense, inconvenience, and the distraction and inherent risks of burdensome and protracted litigation. Neither the Company nor the individual defendants conceded any wrongdoing or liability, and continue to believe that they have meritorious defenses to all claims alleged in the Securities Class Action. Pursuant to the Settlement, the defendants will pay \$15.0 million (the “Settlement Amount”) for a full and complete release of all claims that were or could have been asserted against the Company or the other defendants in the Securities Class Action. The Company expects that the Settlement Amount will be fully covered and funded by the Company’s insurers pursuant to the applicable insurance policies. The Settlement received preliminary approval by the Court but remains subject to final approval by the Court and certain other conditions.

Three shareholder derivative complaints (the “Derivative Actions”) have also been filed purportedly on behalf of the Company against the members of the Company’s Board of Directors (as individual defendants). *Hagan v. Chopra et al.* was filed in the Court on April 15, 2014, and was subsequently consolidated by the Court with *City of Irving Benefit Plan v. Chopra et al.*, which was filed on December 29, 2014. *Kocen v. Chopra et al.* was filed in the Delaware Court of

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Chancery on July 14, 2015. The Derivative Actions generally assert the same factual allegations as those at issue in the related Securities Class Action and purport to allege claims for breach of fiduciary duties and unjust enrichment against the individual defendants on behalf of the Company. Plaintiffs in the Derivative Actions seek unspecified damages, restitution, injunctive relief, attorneys’ and experts’ fees, costs, expenses, and other unspecified relief. While the Company believes that the Derivative Actions are without merit and intends to defend the litigation vigorously, the Company expects to incur costs associated with the defense of the actions. At this early stage of litigation, the ultimate outcomes of the Derivative Actions are uncertain and the Company cannot reasonably predict the timing or outcomes, or estimate their effect, if any, on its financial statements.

The Company is involved in various other claims and legal proceedings arising in the ordinary course of business. In the Company’s opinion after consultation with legal counsel, the ultimate disposition of such proceedings is not likely to have a material adverse effect on its business, financial condition, results of operations or cash flows. The Company has not accrued for loss contingencies relating to such matters because it believes that, although unfavorable outcomes in the proceedings may be possible, they are not considered by management to be probable or reasonably estimable. If one or more of these matters are resolved in a manner adverse to the Company, the impact on the Company’s business, financial condition, results of operations and/or liquidity could be material.

8. Income Taxes

The provision for income taxes is determined using an effective tax rate that is subject to fluctuations during the year as new information is obtained. The assumptions used to estimate the annual effective tax rate include factors such as the mix of pre-tax earnings in the various tax jurisdictions in which the Company operates, valuation allowances against deferred tax assets, increases or decreases in uncertain tax positions, utilization of research and development tax credits, changes in or the interpretation of tax laws in jurisdictions where the Company conducts business and certain tax elections. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities along with net operating loss and tax credit carryovers. The Company records a valuation allowance against its deferred tax assets to reduce the net carrying value to an amount that it believes is more likely than not to be realized. When the Company establishes or reduces the valuation allowance against its deferred tax assets, the provision for income taxes will increase or decrease, respectively, in the period such determination is made.

9. Segment Information

The Company has determined that it operates in three identifiable industry segments: (a) security and inspection systems (Security division), (b) medical monitoring and anesthesia systems (Healthcare division) and (c) optoelectronic devices and manufacturing (Optoelectronics and Manufacturing division). The Company also has a corporate segment (Corporate) that includes executive compensation and certain other general and administrative expenses, expenses related to stock issuances and legal, audit and other professional service fees not allocated to product segments. Both the Security and Healthcare divisions comprise primarily end-user businesses, while the Optoelectronics and Manufacturing division primarily supplies components and subsystems to original equipment manufacturers, including to the Security and Healthcare divisions. Sales between divisions are at transfer prices that approximate market values. All other accounting policies of the segments are the same as described in Note 1, Summary of Significant Accounting Policies of the Form 10-K for the fiscal year ended June 30, 2015.

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The following tables present the operations and identifiable assets by industry segment (in thousands):

	Three Months Ended September 30,	
	2014	2015
Revenues (1) — by Segment:		
Security division	\$ 113,439	\$ 96,410
Healthcare division	47,834	51,465
Optoelectronics and Manufacturing division, including intersegment revenues	69,086	62,548
Intersegment revenues elimination	(11,962)	(10,373)
Total	<u>\$ 218,397</u>	<u>\$ 200,050</u>
	Three Months Ended September 30,	
	2014	2015
Operating income (loss) — by Segment:		
Security division	\$ 17,259	\$ 12,635
Healthcare division	62	2,938
Optoelectronics and Manufacturing division	4,327	5,561
Corporate	(4,517)	(5,202)
Eliminations (2)	(467)	(235)
Total	<u>\$ 16,664</u>	<u>\$ 15,697</u>
	June 30,	September 30,
	2015	2015
Assets (1) — by Segment:		
Security division	\$ 470,808	\$ 515,088
Healthcare division	223,412	205,441
Optoelectronics and Manufacturing division	164,922	164,756
Corporate	125,174	133,716
Eliminations (2)	(4,642)	(4,177)
Total	<u>\$ 979,674</u>	<u>\$ 1,014,824</u>

- (1) For each of the three months ended September 30, 2014 and 2015, one customer, Servicio de Administración Tributaria in Mexico, accounted for 15% of total net revenues. No customer accounted for greater than 10% of accounts receivable as of September 30, 2015.
- (2) Eliminations within operating income primarily reflect the change in the elimination of intercompany profit in inventory not-yet-realized. Eliminations in assets reflect the amount of intercompany profits in inventory as of the balance sheet date. Such intercompany profit will be realized when inventory is shipped to the external customers of the Security and Healthcare divisions.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, "OSI", the "Company", "we", "us", "our" and similar terms refer to OSI Systems, Inc. together with its wholly-owned subsidiaries.

This management's discussion and analysis of financial condition as of September 30, 2015 and results of operations for the three months ended September 30, 2015 should be read in conjunction with management's discussion and analysis of financial condition and results of operations included in our Annual Report on Form 10-K for the year ended June 30, 2015.

Forward-Looking Statements

Certain statements contained in this Quarterly Report on Form 10-Q that are not related to historical results, including, without limitation, statements regarding our business strategy, objectives and future financial position, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and involve risks and uncertainties. These forward-looking statements may be identified by the use of forward-looking terms such as "anticipate," "believe," "expect," "may," "could," "likely to," "should," or "will," or by discussions of strategy that involve predictions which are based upon a number of future conditions that ultimately may prove to be inaccurate. Statements in this Quarterly Report on Form 10-Q that are forward-looking are based on current expectations, and actual results may differ materially. These forward-looking statements should be considered in light of numerous risks and uncertainties described in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K and other documents previously filed or hereafter filed by us from time to time with the Securities and Exchange Commission. Such factors, of course, do not include all factors that might affect our business and financial condition. Although we believe that the assumptions upon which our forward-looking statements are based are reasonable, such assumptions could prove to be inaccurate and actual results could differ materially from those expressed in or implied by the forward-looking statements. For example, the Company could be exposed to a variety of negative consequences as a result of delays related to the award of domestic and international contracts; delays in customer programs; delays in revenue recognition related to the timing of customer acceptance; unanticipated impacts of sequestration and other provisions of the Budget Control Act of 2011 as modified by the Bipartisan Budget Act of 2013; changes in domestic and foreign government spending, budgetary, procurement and trade policies adverse to our businesses; unfavorable currency exchange rate fluctuations; market acceptance of our new and existing technologies, products and services; our ability to win new business and convert any orders received to sales within the fiscal year in accordance with our operating plan; enforcement actions in respect of any noncompliance with laws and regulations including export control and environmental regulations and

the matters that are the subject of some or all of the Company's ongoing investigations and compliance reviews, contract and regulatory compliance matters, and actions, if brought, resulting in judgments, settlements, fines, injunctions, debarment and/or penalties as well as other risks and uncertainties, including but not limited to those detailed herein and from time to time in our Securities and Exchange Commission filings, which could have a material and adverse impact on our business, financial condition and results of operation. All forward-looking statements contained in this Quarterly Report on Form 10-Q are qualified in their entirety by this statement. We undertake no obligation other than as may be required under securities laws to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Summary

We are a vertically integrated designer and manufacturer of specialized electronic systems and components for critical applications. We sell our products and provide related services in diversified markets, including homeland security, healthcare, defense and aerospace. We have three operating divisions: (a) Security, providing security and inspection systems, turnkey security screening solutions and related services; (b) Healthcare, providing patient monitoring, diagnostic cardiology, anesthesia delivery and ventilation systems and defibrillators, and related services; and (c) Optoelectronics and Manufacturing, providing specialized electronic components for our Security and Healthcare divisions, as well as to external original equipment manufacturer clients for applications in the defense, aerospace, medical and industrial markets, among others.

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Security Division. Through our Security division, we provide security screening products and services worldwide, as well as turnkey security screening solutions. These products and services are used to inspect baggage, parcels, cargo, people, vehicles and other objects for weapons, explosives, drugs, radioactive and nuclear materials and other contraband. Revenues from our Security division accounted for 52% and 48% of our total consolidated revenues for the three months ended September 30, 2014 and 2015, respectively.

As a result of the terrorist attacks of September 11, 2001, and subsequent attacks in other locations worldwide, security and inspection products have increasingly been used at a wide range of facilities other than airports, such as border crossings, railways, seaports, cruise line terminals, freight forwarding operations, sporting venues, government and military installations and nuclear facilities. We believe that our wide-ranging product portfolio together with our ability to provide turnkey screening solutions position us to competitively pursue security and inspection opportunities as they arise throughout the world.

Currently, the U.S. federal government is discussing various options to address sequestration and the U.S. federal government's overall fiscal challenges and we cannot predict the outcome of these efforts. While we believe that national security spending will continue to be a priority, U.S. government budget deficits and the national debt have created increasing pressure to examine and reduce spending across many federal agencies. We believe that the diversified product portfolio and international customer mix of our Security division position us well to withstand the impact of these uncertainties and even benefit from specific initiatives within various governments. However, depending on how future sequestration cuts are implemented and how the U.S. federal government manages its fiscal challenges, we believe that these federal actions could have a material, adverse effect on our business, financial condition and results of operations.

Healthcare Division. Through our Healthcare division, we design, manufacture, market and service patient monitoring, diagnostic cardiology, anesthesia delivery and ventilation systems and defibrillator products and related supplies and accessories worldwide for sale primarily to hospitals and medical centers. Our products monitor patients in critical, emergency and perioperative care areas of the hospital and provide such information, through wired and wireless networks, to physicians and nurses who may be at the patient's bedside, in another area of the hospital or even outside the hospital. Revenues from our Healthcare division accounted for 22% and 26% of our total consolidated revenues for the three months ended September 30, 2014 and 2015, respectively.

The healthcare markets in which we operate are highly competitive. We believe that our customers choose among competing products on the basis of product performance, functionality, value and service. In addition, there is continued uncertainty regarding the ongoing debates related to the U.S. budget, the debt ceiling and the Affordable Care Act, any of which may impact hospital spending, third party payor reimbursement and fees to be levied on certain medical device revenues, any of which could adversely affect our business and results of operations. In addition, hospital capital spending appears to have been impacted by strategic uncertainties surrounding the Affordable Care Act and economic pressures. We also believe that the economic slowdown has caused some hospitals and healthcare providers to delay purchases of our products and services. During this period of uncertainty, sales of our healthcare products may be negatively impacted. Although there are indications that a general economic recovery is underway, we cannot predict when the markets will fully recover or when the uncertainties related to the U.S. federal government will be resolved and, therefore, when this period of delayed and diminished purchasing will end. A prolonged delay could have a material adverse effect on our business, financial condition and results of operations.

Optoelectronics and Manufacturing Division. Through our Optoelectronics and Manufacturing division, we design, manufacture and market optoelectronic devices and provide electronics manufacturing services globally for use in a broad range of applications, including aerospace and defense electronics, security and inspection systems, medical imaging and diagnostics, telecommunications, office automation, computer peripherals, industrial automation systems, automotive diagnostic systems, gaming systems and consumer products. We also provide our optoelectronic devices and electronics manufacturing services to original equipment manufacturers, as well as our own Security and Healthcare divisions. Revenues from external customers in our Optoelectronics and Manufacturing division accounted for approximately 26% of our total consolidated revenues for each of the three months ended September 30, 2014 and 2015, respectively.

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Results of Operations for the Three Months Ended September 30, 2014 (Q1 2015) Compared to Three Months Ended September 30, 2015 (Q1 2016) (amounts in millions)

Net Revenues

The table below and the discussion that follows are based upon the way in which we analyze our business. See Note 9 to the condensed consolidated financial statements for additional information about our business segments.

	Q1 2015	% of Net Sales	Q1 2016	% of Net Sales	\$ Change	% Change
	(Dollars in millions)					
Security	\$ 113.4	52%	\$ 96.4	48%	\$ (17.0)	(15)%
Healthcare	47.8	22%	51.5	26%	3.7	8%
Optoelectronics / Manufacturing	69.1	31%	62.5	31%	(6.6)	(10)%
Less: inter-division sales	(11.9)	(5)%	(10.3)	(5)%	1.6	(13)%
Total Net Revenues	<u>\$ 218.4</u>		<u>\$ 200.1</u>		<u>\$ (18.3)</u>	<u>(8)%</u>

Revenues for the Security division for the three months ended September 30, 2015 decreased primarily as a result of a difficult prior-year comparable from the partial fulfillment of a significant Foreign Military Sale (“FMS”) contract to the U.S. Department of Defense and our role in providing security screening equipment to the Glasgow 2014 Commonwealth Games resulting in revenues of approximately \$15 million and \$9 million, respectively, in the prior-year period. This initial FMS order was substantially completed by the end of the fiscal year ended June 30, 2015. These challenges were partially offset by increased service revenues as we leveraged our broad install base for post-warranty service contracts.

Revenues for the Healthcare division for the three months ended September 30, 2015 increased primarily as a result of increased sales in the North America and Europe, Middle East and Africa regions, as well the impact of a full quarter of revenues from an acquisition of a European cardiology equipment business during the first quarter of the prior fiscal year. These increases were partially offset by a decrease in organic sales in our Latin America and Asia regions.

Revenues from external customers for the Optoelectronics and Manufacturing division for the three months ended September 30, 2015 decreased as a result of lower sales in both our contract manufacturing and commercial optoelectronics businesses. Our contract manufacturing business was challenged by a difficult prior-year comparable as exceptionally high prior-year sales were made to a single consumer products customer to whom we still sell.

Gross Profit

	Q1 2015	% of Net Sales	Q1 2016	% of Net Sales
	(Dollars in millions)			
Gross profit	\$ 74.2	34.0%	\$ 68.0	34.0%

The decrease in gross profit during the three months ended September 30, 2015 was primarily due to decreased sales. The gross margin remained consistent between periods due to the increase in net revenues in the Healthcare division, which generally carries the highest gross margin of the three divisions, and the gross margin improvement in the Optoelectronics and Manufacturing division resulting from productivity improvements and product mix. These increases were offset by the impact of a reduced gross margin in the Security division.

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Operating Expenses

	Q1 2015	% of Net Sales	Q1 2016	% of Net Sales	\$ Change	% Change
	(Dollars in millions)					
Selling, general and administrative	\$ 44.2	20.3%	\$ 40.4	20.2%	\$ (3.8)	(8.6)%
Research and development	12.7	5.8%	11.9	5.9%	(0.8)	(6.3)%
Restructuring and other charges	0.7	0.3%	—	—%	(0.7)	(100.0)%
Total operating expenses	<u>\$ 57.6</u>	<u>26.4%</u>	<u>\$ 52.3</u>	<u>26.1%</u>	<u>\$ (5.3)</u>	<u>(9.2)%</u>

Selling, general and administrative. Selling, general and administrative (SG&A) expenses consist primarily of compensation paid to sales, marketing and administrative personnel, professional service fees and marketing expenses. The lower SG&A spending during the quarter ended September 30, 2015 as compared to the quarter ended September 30, 2014 is primarily attributable to reductions in employee compensation, contingent consideration and legal fees.

Research and development. Research and development (R&D) expenses include research related to new product development and product enhancement expenditures. As a percentage of sales, R&D spending increased as we are committed to aggressive product development to ensure that our product lines are continually refreshed and innovated.

Other Income and Expenses

Interest and other expense, net. For the three months ended September 30, 2015, interest and other expense, net amounted to \$0.8 million as compared to \$0.9 million in the comparable prior-year period. Interest expense associated with higher levels of borrowing under our revolving credit facility in the current fiscal year was offset by a significant reduction in outstanding letters of credit under the credit facility.

Income taxes. For the three months ended September 30, 2015, our income tax provision was \$4.1 million, compared to \$4.6 million for the comparable prior-year period. Our effective tax rate for the three months ended September 30, 2015 was 27.5%, compared to 28.8% in the comparable prior-year period. The effective tax rate for a particular period varies depending on a number of factors including (i) the mix of income earned in various tax jurisdictions, each of which applies a unique range of income tax rates and income tax credits, (ii) changes in previously established valuation allowances for deferred tax assets (changes are based upon our current analysis of the likelihood that these deferred tax assets will be realized), (iii) the level of non-deductible expenses, (iv) certain tax elections and (v) tax holidays granted to certain of our international subsidiaries.

Liquidity and Capital Resources

Our principal sources of liquidity are our cash and cash equivalents, cash generated from operations and our credit facility. Cash and cash equivalents totaled \$80.9 million as of September 30, 2015, an increase of \$33.3 million from \$47.6 million as of June 30, 2015. During the three months ended September 30, 2015, we generated \$24.8 million of cash flow from operations and we borrowed \$45 million under our revolving credit facility. These proceeds were used in part for the following: (i) \$2.5 million invested in capital expenditures and (iii) \$34.5 million for the repurchase of our common stock, including net share settlement of equity awards. If we continue to net settle equity awards, we will use additional cash to pay our tax withholding obligations in connection with

such settlements. We currently anticipate that our available funds, credit facilities and cash flow from operations will be sufficient to meet our operational cash needs for at least the next 12 months. In addition, without repatriating earnings from non-U.S. subsidiaries, we anticipate that cash generated from operations will be able to satisfy our obligations in the U.S., including our outstanding lines of credit, as accounting earnings in the U.S. are not necessarily indicative of cash flows since earnings are generally reduced by non-cash expenses including depreciation, amortization, and stock-based compensation.

We have a five-year revolving credit facility that allows us to borrow up to \$450 million at LIBOR plus 1.25% depending upon our leverage ratio. As of September 30, 2015, there was \$45.0 million outstanding under the revolving credit facility and \$6.1 million outstanding under the letters-of-credit sub-facility.

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Cash Provided by Operating Activities. Cash flows from operating activities can fluctuate significantly from period to period, as net income, adjusted for non-cash items, and working capital fluctuations impact cash flows. During the three months ended September 30, 2015, we generated cash from operations of \$24.8 million compared to \$31.5 million in the prior-year period. Cash flow from operating activities during the first three months of fiscal 2016 primarily consisted of net income of \$10.8 million, adjusted for certain non-cash items, including total depreciation and amortization of \$14.1 million and stock-based compensation expense of \$4.5 million, and was offset by the net impact of changes in operating assets and liabilities on cash of \$4.3 million.

Cash Used in Investing Activities. Net cash used in investing activities was \$4.2 million for the three months ended September 30, 2015 as compared to \$15.1 million used for the three months ended September 30, 2014. During the three months ended September 30, 2015, we made \$2.5 million in capital expenditures compared to \$3.1 million during the prior-year period. During the three months ended September 30, 2015, we used cash of \$0.8 million for acquisitions of businesses as compared to \$10.9 million in the comparable prior-year period.

Cash Provided by (Used in) Financing Activities. Net cash provided by financing activities was \$12.9 million for the three months ended September 30, 2015, compared to \$19.0 million used in financing activities for the three months ended September 30, 2014. During the three months ended September 30, 2015, we borrowed \$45 million from our revolving credit facility as compared to \$6.0 million in the prior year. This increased borrowing was partly done in lieu of repatriating funds from foreign tax jurisdictions to enable the repurchase of \$34.5 million of our common stock including net share settlement of equity awards during the quarter as compared to \$24.9 million for the same period in the prior year.

Borrowings

Outstanding lines of credit and current and long-term debt totaled \$55.6 million at September 30, 2015, an increase of \$44.2 million from \$11.4 million at June 30, 2015. See Note 4 to the condensed consolidated financial statements for further discussion.

Cash Held by Foreign Subsidiaries

Our cash, cash equivalents, and investments totaled \$80.9 million at September 30, 2015. Of this amount, approximately 82% was held by our foreign subsidiaries and subject to repatriation tax considerations. These foreign funds were primarily within the tax jurisdictions of the United Kingdom, Malaysia and Mexico, and to a lesser extent in India, Singapore, China and Germany, amongst others. We intend to permanently reinvest a significant portion of our earnings from foreign operations, and we currently do not anticipate that we will need this cash in foreign countries to fund our U.S. operations. In the event that funds from foreign operations are needed to fund operations in the U.S. and if U.S. taxes have not been previously provided on the related earnings, we would provide for and pay additional U.S. taxes at the time we change our intention with regard to the reinvestment of those earnings.

Issuer Purchases of Equity Securities

The following table contains information about the shares acquired during the quarter ended September 30, 2015:

	Total number of shares (or units) purchased(1)(2)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) that may yet be purchased under the plans or programs (3)
July 1, 2015 to July 31, 2015	696	\$ 70.00	—	764,560
August 1, 2015 to August 31, 2015	29,942	\$ 69.66	29,910	734,650
September 1, 2015 to September 30, 2015	428,344	\$ 75.64	254,886	479,764
	458,982	\$ 75.24	284,796	

- (1) A total of 696 shares, 32 shares and 173,458 shares of common stock were tendered to satisfy minimum statutory tax withholding obligations related to the vesting of restricted shares for the months July, August and September 2015, respectively.
- (2) For the three months ended September 30, 2015, a total of 284,796 shares of common stock were purchased under the stock repurchase program at an average price of \$75.39 per share.

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- (3) In March 1999, the Board of Directors authorized a stock repurchase program of up to 2 million shares. In both September 2004 and April 2013, the Board of Directors authorized an additional 1 million shares for repurchase pursuant to this program, and in October 2015 the Board of Directors authorized an additional 500,000 shares for repurchase pursuant to this program. This program does not have an expiration date. Upon repurchase, the shares are restored to the status of authorized but unissued, and we record them as a reduction in the number of shares of common stock issued and outstanding in the consolidated financial statements.

Dividend Policy

We have not paid cash dividends on our common stock in the past and have no plans to do so in the foreseeable future. Certain of our current bank credit facilities restrict the payment of cash dividends, and future borrowings may contain similar restrictions.

Contractual Obligations

We presented our contractual obligations in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015. See Note 7 to the condensed consolidated financial statements for further discussion regarding significant changes in those obligations during the first three months of fiscal 2016.

Off Balance Sheet Arrangements

As of September 30, 2015, we did not have any significant off balance sheet arrangements as defined in Item 303(a)(4) of Regulation S-K.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions and select accounting policies that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Our critical accounting policies are detailed in our Annual Report on Form 10-K for the year ended June 30, 2015.

Please refer to Note 1 to our condensed consolidated financial statements for discussion concerning recent accounting updates not yet adopted.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For the three months ended September 30, 2015, no material changes occurred with respect to market risk as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

Market Risk

We are exposed to certain market risks, which are inherent in our financial instruments and arise from transactions entered into in the normal course of business. We may enter into derivative financial instrument transactions in order to manage or reduce market risk in connection with specific foreign-currency-denominated transactions. We do not enter into derivative financial instrument transactions for speculative purposes.

We are subject to interest rate risk on our borrowings under our bank lines of credit. Consequently, our interest expense would fluctuate with changes in the general level of these interest rates if we were to borrow any amounts under the credit facility.

Foreign Currency

Our international operations are subject to certain opportunities and risks, including foreign currency fluctuations and governmental actions. We closely monitor our operations in each country and seek to adopt appropriate strategies that are responsive to changing economic and political environments, and to fluctuations in foreign currencies. We conduct business in more than 20 countries. Due to our global operations, weaknesses in the currencies of some of these countries are often offset by strengths in others. Foreign currency financial statements are translated into U.S. dollars at period-end rates, with the exception of revenues, costs and expenses, which are translated at average rates during the reporting period. We include gains and losses resulting from foreign currency transactions in income, while we exclude those resulting from translation of financial statements from income and include them as a component of accumulated other comprehensive income. Transaction gains and losses, which were included in our condensed consolidated statements of operations, amounted to gain of \$0.5 million and loss of \$0.5 million during the three months ended September 30, 2014 and September 30, 2015, respectively. Furthermore, a 10% appreciation of the U.S. dollar relative to each of the local currencies would have resulted in a net increase in our operating income of approximately \$3.0 million in the first quarter of fiscal 2016. Conversely, a 10% depreciation of the U.S. dollar relative to each of the local currencies would have resulted in a net decrease in our operating income of approximately \$3.0 million in the first quarter of fiscal 2016.

Use of Derivatives

On occasion we enter into derivative contracts to hedge the impact of fluctuations in foreign currencies and the volatility of variable interest rate borrowing. Our current use of derivatives consists of an interest rate swap agreement. As discussed in Note 1 to the condensed consolidated financial statements, we had an interest rate swap of \$6.4 million outstanding as of September 30, 2015.

Importance of International Markets

International markets provide us with significant growth opportunities. However, as a result of our worldwide business operations, we are subject to various risks, including: international regulatory requirements and policy changes; difficulties in accounts receivable collection and the management of distributors; geopolitical and economic instability; currency exchange rate fluctuations; and tariff regulations. In response to these risks and others, we continue to perform ongoing credit evaluations of our customers' financial condition and, if deemed necessary, we require advance payments for sales. Also, we monitor geopolitical, economic and currency conditions around the world to evaluate whether there may be any significant effect on our international sales in the future.

Inflation

We do not believe that inflation had a material impact on our results of operations during the three months ended September 30, 2015.

Interest Rate Risk

We classify all highly liquid investments with maturities of three months or less as cash equivalents and record them on our balance sheet at fair value.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures as defined under Exchange Act Rule 13a-15(e) and 15d-15(e) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission and is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the first quarter of fiscal 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain of the legal proceedings in which we are involved are discussed in Note 7, “Commitments and Contingencies,” to our Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q, and are hereby incorporated by reference.

ITEM 1A. RISK FACTORS

The discussion of our business and operations in this Quarterly Report on Form 10-Q should be read together with the risk factors contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015, filed with the Securities and Exchange Commission on August 24, 2015, which describe various risks and uncertainties to which we are or may become subject. There have been no material changes to the risk factors included in our Annual Report.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

See Issuer Purchases of Equity Securities discussion under Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations, which is hereby incorporated by reference.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

10.1† Amendment to Employment Agreement effective as of May 1, 2015 between Ajay Mehra and OSI Systems, Inc.

10.2†	Employment Agreement effective as of January 1, 2012 between Nicholas Ong and Spacelabs Healthcare, Inc.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1	<p>The following financial information from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, as filed with the SEC on October 30, 2015, formatted in XBRL, as follows:</p> <ul style="list-style-type: none"> (i) the condensed consolidated balance sheets (ii) the condensed consolidated statements of operations (iii) the condensed consolidated statements of comprehensive income (iv) the condensed consolidated statements of cash flows (v) the notes to the condensed consolidated financial statements, tagged in summary and detail

†Denotes a management contract or compensatory plan or arrangement

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, in the City of Hawthorne, State of California on the 30th day of October 2015.

OSI SYSTEMS, INC.

By: /s/ Deepak Chopra
Deepak Chopra
President and Chief Executive Officer

By: /s/ Alan Edrick
Alan Edrick
Executive Vice President and Chief Financial Officer

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment ("Amendment") to that certain EMPLOYMENT AGREEMENT (the "Agreement") entered into as of January 1, 2012 by and between OSI Systems, Inc., a Delaware corporation (the "Company"), and Ajay Mehra ("Executive") is made effective May 1, 2015.

WHEREAS, Company and Executive have agreed to revise the terms of Executive's employment under the Agreement:

NOW THEREFORE, the parties agree as follows:

1. Section 1.1 is hereby amended and restated in its entirety to provide as follows:

1.1 Commencing upon the Effective Date, and upon the terms and subject to the conditions set forth in this Agreement, the Company hereby engages and employs Executive with the title and designation of Executive Vice President of OSI Solutions Business which shall consist of turnkey solutions using the Company's security and healthcare technologies and third party technologies, training and integration. Executive shall report to the Company's Chief Executive Officer.

2. Section 3.1 is hereby amended and restated in its entirety to provide as follows:

3.1 **Base Salary.** Executive's Base Salary shall be Three Hundred and Fifty-Two Thousand Dollars (\$352,000) per annum, less applicable withholdings ("Base Salary"). The Base Salary shall increase to Four Hundred and Two Thousand Dollars (\$402,000) per annum upon Executive's achieving Operating Income from the OSI Solutions Business as defined under the Mehra 2015 Operating Income Performance Program of Twenty Million Dollars (\$20,000,000) over the twelve (12) month trailing period (for avoidance of doubt, once this performance threshold is achieved, Base Salary shall not automatically be reduced thereafter merely because performance falls below such level during any twelve month period). The Base Salary shall be payable at such times and in such manner as the Company customarily pays other similarly situated executives but in no event less frequently than twice per month. Executive's Base Salary shall be reviewed annually.

3. Section 3.2.1 is hereby amended and restated in its entirety to provide as follows:

3.2.1 To the extent that the Company or its Affiliates maintain one or more equity participation plans, Executive shall be eligible to participate in such plans. Executive's participation in such equity participation plans, and the extent of any such participation, shall be at the Company's sole discretion, provided that Executive's

participation in such plans shall be at a rate (or value) of approximately thirty percent (30%) of the participation rate (or value) of the Chief Financial Officer.

4. Section 3.3 is hereby amended and restated in its entirety to provide as follows:

3.3 **Bonuses.** Executive shall participate in the Company's bonus pool and Executive's bonus (if any) shall be determined and paid on the same or similar basis as the bonuses of other similarly situated executives based on respective individual performance factors and criteria. Each bonus payment shall be made in the calendar year that contains the last day of the fiscal year or performance year to which the bonus payment is attributable, no later than September 15th.

5. Section 3.6 is deleted in its entirety and Section 3.7 is renumbered Section 3.6.

6. Section 4.3.1 is hereby amended and restated in its entirety to provide as follows:

4.3.1 **Good Reason.** Executive may terminate this Agreement for "Good Reason," which shall have the meaning given to such term in the Employment Agreements, as may be amended from time to time, of Victor Sze and Alan Edrick, or one of them if the other ceases to be an employee of the Company. Unless an alternative definition is included hereafter in such Employment Agreement(s), as may be amended from time to time, Good Reason shall mean the occurrence of any of the following events, unless Executive specifically agrees in writing that such event is not Good Reason, provided that (x) Executive terminates this Agreement within six (6) months following the initial existence of one or more of the following events that occur without Executive's consent and (y) Executive provides written notice to the Company of the existence of one or more of the following events within ninety (90) days of the initial existence of such event or events, the Company fails to remedy such event or events within thirty (30) days of receiving such notice, and termination is effective within sixty (60) days following the end of such cure period:

(a) **Substantial Change in Duties.** Any substantial negative change in the nature and status of duties assigned to Executive such that Executive is given duties not commensurate with Executive's title (for avoidance of doubt, duties may be changed to comparable duties of similar importance and stature commensurate with his title and changes in service or participation on the Company's Board of Directors ("Board") shall not constitute Good Reason);

(b) **Relocation.** Following a Change in Control, the relocation of Executive's principal office location more than twenty-five (25) miles from its location as of the Effective Date (but not closer to Executive's principal residence);

(c) **Reduction in Salary.** Executive's Base Salary is reduced by more than ten percent (10%) of Executive's initial Base Salary specified in Section 3.1 or, following a Change in Control, any material reduction in Executive's Base Salary (for avoidance of doubt, a reduction of less than 10% of Base Salary from Executive's initial Base Salary prior to a Change in Control shall not be considered a breach of this Agreement);

(d) **Material Breach.** Any material breach of the Agreement by the Company;

(e) **Change in Title.** Any change in Executive's titles such that Executive no longer holds the titles (and privileges commensurate with such titles) set forth in Section 1.1 and instead is given a title or privileges of less importance and stature;

(f) **Change in Reporting Relationship.** Any change in the reporting relationship, such that Executive no longer reports to the Company's Chief Executive Officer; and

(g) **Change in Role.** In the event that, for whatever reason, the Company is no longer the parent entity in its organizational framework, such that Executive is no longer the Executive Vice President of the Company and/or the President of OSI Solutions Business.

7. Section 4.4.1 is hereby amended and restated in its entirety to provide as follows:

4.4.1 **Involuntary Termination.**

(a) In the event of termination of Executive's employment on or prior to December 31, 2016 either by the Company without Cause pursuant to Section 4.2.3 or by Executive for Good Reason pursuant to Section 4.3.1, subject to the provisions of Section 4.4.2 below, Executive shall also be entitled to the following in addition to the Accrued Compensation above: (i) a single lump sum payable as provided in Section 4.4.5, equal to twenty-four (24) months of Base Salary at Executive's then-current Base Salary (which shall be the Base Salary before any temporary reduction pursuant to 4.3.1(c) or otherwise), plus two (2) times the average of the highest three (3) annual bonuses (excluding Special Bonus Programs) paid by the Company to Executive over the five (5) calendar years preceding such termination; (ii) continuation of Executive's car usage or allowance payments, as set forth in Section 3.5, for a period six of (6) months after Separation from Service, (iii) a six thousand dollar (\$6,000) allowance for outplacement services payable at the same time as the severance payment provided under 4.4.1(a), and (iv) acceleration of vesting of all stock options and equity grants and other incentive compensation awards (based on terms of awards in effect prior to the May 4, 2015 amendments and excluding any cash bonus attributable to performance in fiscal years that are not complete as of the Completion Date and any Special Bonus Programs) from the Company to Executive as follows: (x) grants vesting over time shall be fully vested on Separation from Service, (y) grants vesting based on performance shall be accelerated and fully vested on Separation from Service without regard to the May 4, 2015 amendments and without regard to whether the performance targets (excluding any overperformance provisions) have been met for such performance period, and (z) the time to exercise nonqualified stock options shall be extended such that Executive's right to exercise such stock options shall continue until the first

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anniversary of the Completion Date, but in no event later than the Expiration Date of the options, as defined under the stock option agreement covering such options.

(b) In the event of termination of Executive's employment after December 31, 2016 but prior to the Scheduled Retirement Date either by the Company without Cause pursuant to Section 4.2.3 or by Executive for Good Reason pursuant to Section 4.3.1, subject to the provisions of Section 4.4.2 below, Executive shall also be entitled to the following in addition to the Accrued Compensation above: (a) a single lump sum payable as provided in Section 4.4.5, equal to two (2) times Executive's total "Cash Compensation" (defined as (x) Base Salary and annual discretionary bonus earned during the twelve (12) completed calendar months immediately preceding termination and (y) Mehra 2015 Operating Income Performance Program awards (if the awards are issued in stock, then the cash equivalent) earned during the six (6) completed calendar months immediately preceding a termination occurring in 2017, annualized, or during the twelve (12) completed calendar months immediately preceding a termination occurring in 2018 or thereafter), (b) continuation of Executive's car usage or allowance payments, as set forth in Section 3.5, for a period of six (6) months after Separation from Service, (c) a six thousand dollar (\$6,000) allowance for outplacement services payable at the same time as the severance payment provided under 4.4.1(a), and (d) acceleration of vesting of all stock options, equity grants and other incentive compensation awards (taking into account the May 4, 2015 amendments and any subsequent amendment thereto and excluding any cash bonus attributable to performance in fiscal years that are not complete as of the Completion Date and any Special Bonus Programs) from the Company to Executive as follows: (i) grants vesting over time shall be fully vested on Separation from Service, (ii) grants vesting based on performance, as amended, shall be accelerated and fully vested on Separation from Service without regard to whether the performance targets (excluding any overperformance provisions) are met for such performance period, and (iii) the time to exercise nonqualified stock options shall be extended such that Executive's right to exercise such stock options shall continue until the first anniversary of the Completion Date, but in no event later than the Expiration Date of the options, as defined under the stock option agreement covering such options.

8. Section 4.4.2 is hereby amended and restated in its entirety to provide as follows:

4.4.2 **Change in Control.** Within ninety (90) days prior to or twelve (12) months after a Change of Control, if there is either (A) a notice of termination of this Agreement by the Company without Cause pursuant to Section 4.2.3, or (B) a notice of termination of this Agreement by Executive for Good Reason pursuant to Section 4.3.1, and such notice under (A) or (B) results in a Separation from Service such that Executive does not continue to be employed by the Company, then:

(a) Equity, stock options and other incentive compensation awards (excluding any cash bonus attributable to performance in fiscal years that are not complete as of the Completion Date and any Special Bonus Programs) granted by the Company to Executive, whether time vested or performance vested, shall, to the extent

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unvested, immediately vest (excluding any overperformance provisions), and such stock options shall remain exercisable by Executive for no less than twelve (12) months after the date of such Separation from Service. Notwithstanding the forgoing, if the Change in Control occurs on or before December 31, 2016, the acceleration of performance based equity awards granted prior to May 4, 2015 shall be based on the terms of such awards without regard to the May 4, 2015 amendments.

(b) If a termination of this Agreement covered by this Section 4.4.2 is contingent upon a change in ownership or effective control of the Company or a change in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(i) of the Internal

Revenue Code of 1986, as amended (the “Code”), and the regulations thereunder (collectively, a “280G Event”) and such Change in Control occurs on or before December 31, 2016, then Executive, at his option, may elect to receive either of the following: (i) the compensation and benefits otherwise payable under Section 4.4.1 (without double counting the award accelerations specified in Section 4.4.2(a)), or (ii) the Alternative Payment (as defined below) in lieu of the compensation and benefits otherwise payable under Section 4.4.1. In order to elect the Alternative Payment, Executive must give written notice to the Company of such election: (i) within fifteen (15) days after his resignation with Good Reason; or (ii) within fifteen (15) days after he is terminated by the Company without Cause (each, an “Alternative Payment Notice”). For purposes of this Agreement, “Alternative Payment” means a lump sum payment made by the Company to Executive as provided in Section 4.4.5, in immediately available funds in an amount equal to the product of 2.99 (or, if Code Section 280G(b)(2)(A)(ii) is amended providing for a multiple other than 3, then the multiple as amended, less 0.01) *multiplied by* Executive’s “base amount” (as defined in Code Section 280G(b)(3) excluding payments under any Special Bonus Programs); provided, however, that in the case of a 280G Event, the amount of the Alternative Payment shall be reduced by the value of acceleration (as determined under Code Section 280G and the regulations thereunder) of any equity, stock options and incentive compensation accelerated hereunder pursuant to Section 4.4.2(a). Payments to Executive upon termination of this Agreement under this Section 4.4.2 shall be subject to mitigation as provided in Treasury Regulations Section 1.280G-1 Q&A 42(c)(5). The value (as determined under Code Section 280G and the regulations thereunder) of acceleration of vesting of equity, stock options and incentive compensation granted by the Company to Executive shall be taken into account to the minimum extent necessary so as not to violate Treasury Regulations Section 1.280G-1 Q&A 42(c). If a termination of this Agreement is covered by this Section 4.4.2 and such Change in Control occurs after December 31, 2016, Executive shall receive the lesser of (x) the compensation and benefits otherwise payable under Section 4.4.1 (without double counting the award accelerations specified in Section 4.4.2(a)), or (y) the Alternative Payment (as defined above), in lieu of the compensation and benefits otherwise payable under Section 4.4.1.

9. Section 4.4.3 is hereby amended and restated in its entirety to provide as follows:

4.4.3 **Definition of Change in Control.** “Change in Control” means the occurrence of any of the following events during the Term of the Agreement: (i) any sale, lease, license, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the business and/or assets of the Company; (ii) a merger or consolidation of the Company in which it is not the surviving entity; (iii) a reorganization or liquidation of the Company; (iv) a merger, consolidation, tender

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offer or any other transaction involving the Company if the equity holders of such entity immediately before such merger, consolidation, tender offer or other transaction do not own, directly or indirectly, immediately following such merger, consolidation, tender offer or other transaction, more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from such merger, consolidation, tender offer or other transaction; (v) Deepak Chopra ceases to be Chief Executive Officer of the Company, unless his termination from employment with the Company is by reason of a voluntary termination; (vi) a change in the composition of the Company’s Board as a result of which fewer than a majority of the directors are Incumbent Directors; or (v) the consummation of any other transaction involving a significant issuance of the Company’s securities, or other material event, that the Company’s Board determines to be a Change in Control. The term “Incumbent Directors” shall mean directors who either: (A) are directors of the Company as of the Effective Date hereof; or (B) are nominated for election to the Board of the Company with the affirmative votes of at least a majority of the directors of the Company who are Incumbent Directors (“Approved Successors”) described in (A) above at the time of such nomination; or (C) are nominated for election to the Board of the Company with the affirmative votes of at least a majority of the directors of the Company who are Incumbent Directors or their Approved Successors. Notwithstanding the foregoing, “Incumbent Directors” shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company.

10. Section 4.4.6 which provides for the payment of a Stay Bonus is hereby removed in its entirety and no Stay Bonus shall be payable under the Agreement.

11. Section 8.12 is hereby amended and restated in its entirety to provide as follows:

8.12 **Application of Section 409A.** To the extent applicable, it is intended that this Agreement comply with the provisions of Section 409A of the Internal Revenue Code and the guidance promulgated thereunder (“Section 409A”). This Agreement shall be administered in a manner consistent with this intent, and any provision that would cause the Agreement to fail to satisfy Section 409A shall have no force and effect until amended by the parties to comply with Section 409A (which amendment may be retroactive to the extent permitted by Section 409A). Unless otherwise expressly provided, any payment of compensation by the Company to Executive, whether pursuant to this Agreement or otherwise, shall be made no later than the 15th day of the third month (i.e., 2½ months) after the later of the end of the calendar year or the Company’s fiscal year in which Executive’s right to such payment vests (i.e., is not subject to a “substantial risk of forfeiture” for purposes of Code Section 409A). For purposes of this Agreement, “Separation from Service” shall have the meaning given to such term under Section 409A. Each payment and each installment of

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any severance payments provided for under this Agreement shall be treated as a separate payment for purposes of application of Section 409A. To the extent that any severance payments come within the definition of “short term deferrals” or “involuntary severance” under Section 409A, such amounts shall be excluded from “deferred compensation” as allowed under Section 409A, and shall not be subject to the following Section 409A compliance requirements. All payments of “nonqualified deferred compensation” (within the meaning of Section 409A) are intended to comply with the requirements of Section 409A, and shall be interpreted in accordance therewith. Neither party individually or in combination may accelerate, offset or assign any such deferred payment, except in compliance with Section 409A. No amount shall be paid prior to the earliest date on which it is permitted to be paid under Section 409A and Executive shall have no discretion with respect to the timing of payments except as permitted under Section 409A. Any payments to which Section 409A applies which are subject to execution of a waiver and release which may be executed and/or revoked in a calendar year following the calendar year in which the payment event (such as Separation from Service) occurs shall commence payment only in the calendar year in which the release revocation period ends if necessary to comply with Section 409A. In the event that Executive is determined to be a “key employee” (as defined and determined under Section 409A) of the Company at a time when its stock is deemed to be publicly traded on an established securities market, payments determined to be “nonqualified deferred compensation” payable upon Separation from Service shall be made no earlier than (i) the first day of the seventh (7th) complete calendar month following such termination of employment, or (ii) Executive’s death, if required and consistent with the provisions of Section 409A. Any payment delayed by reason of the prior sentence shall be paid out in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule. All expense reimbursement or in-kind benefits subject to Section 409A provided under this Agreement or, unless otherwise specified in writing, under any Company program or policy, shall be subject to the following rules to the extent necessary to comply with Section 409A: (i) the amount of expenses eligible

for reimbursement or in-kind benefits provided during one calendar year may not affect the benefits provided during any other year; (ii) reimbursements shall be paid no later than the end of the calendar year following the year in which Executive incurs such expenses, and Executive shall take all actions necessary to claim all such reimbursements on a timely basis to permit the Company to make all such reimbursement payments prior to the end of said period, and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit. Notwithstanding anything herein to the contrary, no amendment may be made to this Agreement if it would cause the Agreement or any payment hereunder not to be in compliance with Section 409A.

12. Section 8.15 is hereby amended and restated in its entirety to provide as follows:

8.15. **Clawback Policy.** Notwithstanding anything contained herein or in any incentive compensation plan, program or arrangement sponsored by the Company, all incentive or performance based compensation shall be subject to reduction or repayment by reason of a correction or restatement of the Company's financial

information if and to the extent such reduction or repayment is required by any applicable law.

13. A new Section 8.16 is hereby added to provide as follows:

8.16 **Limitation on Remedies.** Executive acknowledges and agrees that this Agreement is being executed voluntarily, knowingly and without duress. Executive's exclusive remedy against the Company in the event the Company materially breaches this Agreement shall be to invoke the provisions of Section 4.3.1 and Section 4.4 hereof. If Executive brings a claim based on breach of the Company's obligation to provide any of the benefits and compensation promised to him in this Agreement, and it is determined that the Company breached such obligation, the amount of any award to Executive shall not exceed the amounts provided under Section 4.4 and, except as specifically provided in Section 4.4.2, shall not be reduced by alternative income or benefits he receives before or after his separation from the Company, nor shall he otherwise be required to mitigate his damages based on breach of this Agreement.

14. All other terms of the Agreement shall remain unchanged and the Agreement, as amended hereby, is hereby ratified and confirmed in all respects.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment to be effective as of the date first set forth above.

EXECUTIVE

/s/ Ajay Mehra
Ajay Mehra

OSI SYSTEMS, INC.

/s/ Deepak Chopra
By: Deepak Chopra, CEO

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is made and entered into as of January 1, 2012 ("Effective Date") by and between Spacelabs Healthcare, Inc., a California corporation (the "Company"), and Nicholas Ong ("Executive").

1. ENGAGEMENT AND DUTIES.

1.1 Commencing upon the Effective Date, and upon the terms and subject to the conditions set forth in this Agreement, the Company hereby engages and employs Executive with the title and designation of President of the Company. Executive shall report to the Chief Executive Officer of the Company's parent OSI Systems, Inc. (the "Parent").

1.2 Executive agrees to devote his primary business time, energies, skills, efforts and attention to his duties hereunder and will not, without the prior consent of the Company, which consent will not be unreasonably withheld, render any material services to any other business concern. Reasonable bases for the Company to withhold consent include, without limitation, unreasonable interference with, or other incompatibility with, Executive's duties to the Company, so long as such bases are stated in writing by the Company.

1.3 Except for routine travel incident to the business of the Company or the performance of his duties, Executive shall perform services hereunder primarily at the Company's offices in the greater Seattle area, Washington, or at such other place as Executive and the Company may from time to time agree.

2. **TERM.** The Term of this Agreement shall commence as of the Effective Date and shall continue until the first anniversary of the Effective Date ("Initial Term"), unless sooner terminated as provided under Section 4, and shall automatically be extended for successive one (1) year periods ("Renewal Periods") until the Scheduled Retirement Date, unless either party delivers notice of non-renewal to the other party at least thirty (30) days prior to the end of the Initial Term or any Renewal Period then in effect, or unless sooner terminated under Section 4. Unless sooner terminated hereunder, the contract shall terminate upon the first day of January following the year in which the Executive attains age sixty-eight (68) (the "Scheduled Retirement Date"). If the Executive continues employment after the Scheduled Retirement Date such employment shall no longer be subject to the terms of this Agreement but shall continue on an "at-will" basis and/or subject to such terms and conditions as the parties may mutually agree at such time. The Initial Term and any Renewal Period(s) shall collectively be referred to as the "Term". For purposes of this Agreement, the "Completion Date" shall be defined as the Executive's actual final date of employment and shall coincide with the Executive's "Separation from Service" as such term is defined in Section 8.12.

3. **COMPENSATION.** During the Term of the Executive's employment the Executive shall be provided with the following Compensation:

3.1 **Base Salary.** Executive's Base Salary shall be Three Hundred and Forty-five Thousand Dollars (\$345,000) per annum, less applicable withholdings ("Base Salary"). The Base Salary shall be payable at such times and in such manner as the Company customarily pays other similarly situated executives but in no event less frequently than twice per month.

Executive's Base Salary shall be reviewed annually, and shall be subject to upward adjustment on the basis of such review but shall not in any event be reduced.

3.2 **Equity Participation.**

3.2.1 To the extent that the Company or its Affiliates maintain one or more equity participation plans, Executive shall be eligible to participate in such plans; provided, however, that Executive's participation in such equity participation plans, and the extent of any such participation, shall be at the Company's sole discretion.

3.2.2 Notwithstanding anything to the contrary herein, all stock options, equity awards and other incentive compensation awards excluding special incentive bonuses which the parties mutually agree to exclude in writing ("Special Bonus Programs") granted to Executive by the Company shall become fully vested and nonforfeitable upon a Change in Control (as defined herein).

3.3 **Bonuses.** Executive shall participate in the Company's bonus pool and Executive's bonus (if any) shall be determined and paid on the same or similar basis as the bonuses of other similarly-situated executives. Each bonus payment shall be made in the calendar year that contains the last day of the fiscal year or performance year to which the bonus payment is attributable, no later than September 15th.

3.4 **Fringe Benefits.** Executive shall be entitled to participate in and receive benefits under any plan of the Company made available from time to time to any other similarly situated executive, provided he is otherwise eligible to participate. Such benefits may include, without limitation, life insurance, disability insurance, medical/dental/vision insurance, and retirement benefits, including participation in the Company's deferred compensation plan. With respect to Executive's life insurance benefits, the Company shall during the Term facilitate the purchase by Executive of an individual term life insurance policy on the life of Executive having a death benefit in the amount of no less than One Million, Five Hundred Thousand Dollars (\$1,500,000) (the "Policy"), and the reasonable premiums for such Policy shall be reimbursed to Executive by the Company during the period of time Executive is employed by the Company. The Policy shall be owned by Executive or Executive's permitted assigns. It shall be the responsibility of Executive to apply for and obtain the Policy and the Company makes no representation or guarantee Executive will be eligible for any such life insurance coverage. Upon termination of employment for any reason, the Company will have no further obligation to reimburse Executive for such premiums; however, Executive shall be entitled to continue such Policy at his own expense.

3.5 **Business Expenses/Car Allowance.** Company shall advance to or reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive as a result of Executive's services hereunder, in accordance with Company policy as established from time to time. Company shall provide the Executive with the use of a Company car or pay to Executive a monthly car allowance in accord with Company policy, in the amount of One Thousand Dollars \$1,000, as the parties may mutually agree from time to time, subject to compliance with the Company policy regarding the provision of allowances and in-kind benefits referenced in Section 8.12.

3.6 **PTO**. Executive shall be entitled to paid time off in accordance with the Company's policy applying to other similarly-situated executives, but in no event less than four (4) weeks of paid time off in each year during the Term.

3.7 **Relocation Package**. In the event of relocation, during the Term, of Executive's principal office location more than 25 miles from its location as of the Effective Date (but not closer to the executives principal residence), and, as a result thereof, Executive relocates his principal residence, the Company shall offer Executive a reasonable relocation package.

4. **TERMINATION OF EMPLOYMENT**

4.1 **By the Company For Cause**. The Company may terminate Executive's employment under this Agreement for "Cause" at any time upon notice to Executive. As used in this Agreement "Cause" shall be defined as: (a) Executive's admission or conviction of, or entering of a plea of *nolo contendere* as to any felony, or any lesser crime involving fraud, embezzlement or theft; (b) Executive's failure to substantially perform his duties, which failure cannot be cured or is not cured within ten (10) business days after written notice from the Company, as long as Executive is not prevented from performing or curing by actions outside his control; or (c) Executive's material breach of any provision of this Agreement, which breach cannot be cured or is not cured within thirty (30) business days after written notice from the Company, as long as Executive is not prevented from performing or curing by actions outside his control.

4.2 **By the Company Other Than For Cause**. The Company may terminate this Agreement at any time other than for Cause, for any of the following reasons, under the following terms:

4.2.1 **Death**. In the event of Executive's death, this Agreement shall automatically terminate and all rights of Executive and his heirs, executors and administrators to compensation and other benefits under this Agreement shall cease; provided, however, that Executive's participation in the Company's employee benefit plans or programs shall cease in accordance with the terms of such plans or programs as then in effect.

4.2.2 **Disability**. The Company may, at its option, terminate this Agreement upon written notice to Executive if Executive, because of physical or mental incapacity or disability, fails to perform the essential functions of his position required of him hereunder for an aggregate period of one hundred eighty (180) days within any twelve-month period. Upon such termination, all obligations of the Company hereunder shall cease; provided, however, that Executive's participation in the Company's employee benefit plans or programs shall cease in accordance with the terms of such plans or programs as then in effect.

4.2.3 **Without Cause**. The Company may terminate Executive's employment without Cause upon 30 days' written notice ("Notice Period") to Executive. The Company may elect whether or not Executive shall perform duties under this Agreement during all or a portion of the Notice Period but shall be required to pay Executive all wages and other compensation as provided for in Section 3 until the end of the Notice Period ("Notice Period Compensation"). Any decision by the Company not to renew this Agreement at any time during the Term, or to terminate this Agreement for any reason other than for Cause, death or disability, prior to the Scheduled Retirement Date shall be treated as a termination without Cause.

4.3 **Termination By Executive**. Executive may terminate this Agreement at any time upon 30 days' notice ("Executive Notice Period") to the Company, whether or not such

termination is for Good Reason as described below. The Company may elect whether or not Executive shall perform duties under this Agreement during all or a portion of the Executive Notice Period but shall be required to pay Executive all Notice Period Compensation as provided for in Section 3 until the end of the Executive Notice Period.

4.3.1 **Good Reason**. Executive may terminate this Agreement for "Good Reason," which shall mean the occurrence of any of the following events, unless the Executive specifically agrees in writing that such event is not Good Reason provided that (x) Executive terminates this Agreement within six (6) months following the initial existence of one or more of the following events that occur without Executive's consent and (y) Executive provides written notice to the Company of the existence of one or more of the following events within ninety (90) days of the initial existence of such event or events and the Company fails to remedy such event or events within thirty (30) days of receiving such notice:

(a) **Substantial Reduction in Duties**. Any substantial reduction in duties whereby Executive's job responsibilities are markedly and significantly reduced in scope, complexity, and/or importance to overall Company operations;

(b) **Relocation**. Following a Change in Control, the relocation of Executive's principal office location more than twenty-five (25) miles from its location as of the Effective Date (but not closer to the executives principal residence);

(c) **Reduction in Salary**. Executive's Base Salary is materially reduced from any prior year unless such reduction is (i) a temporary reduction for a period of no more than twelve (12) months, (ii) of no more than ten percent (10%) of Base Salary, (iii) not in the context of a Change in Control, and (iv) applicable to the Chief Executive Officer and all executives reporting directly to the Chief Executive Officer of the Parent;

(d) **Material Breach**. Any material breach of the Agreement by the Company;

(e) **Change in Title**. Any change in Executive's titles such that Executive no longer holds the titles (and duties and privileges commensurate with such titles) set forth in Section 1.1 and instead is given a title or duties and privileges of less importance and stature; and

(f) **Change in Reporting Relationship**. Any change in the reporting relationship, such that Executive no longer reports to the Parent's Chief Executive Officer.

4.3.2 **Without Good Reason**. Executive may terminate this Agreement without Good Reason as defined herein.

4.4 **Payments Upon Termination.** Upon expiration, non-renewal or termination of this Agreement for any reason by either party as described in this Section 4, Executive shall be entitled to receive payment of (a) any unpaid Base Salary through the Completion Date payable on such date; (b) any unused vacation and paid time off accrued through the Completion Date payable on such date; and (c) applicable employee benefits to which Executive is entitled upon Separation from Service with the Company, payable in accordance with the terms of the plans or programs of the Company then in effect (a-c is referred to together as “Accrued Compensation”). In addition to the above, and subject to Executive’s execution of a customary and reasonable release of liabilities in favor of the Company and its Affiliates, all of the following shall apply:

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4.4.1 **Involuntary Termination.** In the event of termination of Executive’s employment prior to the Scheduled Retirement Date either by the Company without Cause pursuant to Section 4.2.3 or by Executive for Good Reason pursuant to Section 4.3.1, subject to the provisions of Section 4.4.2 below, Executive shall also be entitled to the following in addition to the Accrued Compensation above: (a) a single lump sum payable as provided in Section 4.4.5, equal to twenty-four (24) months of Base Salary at Executive’s then-current Base Salary (which shall be the Base Salary before any temporary reduction pursuant to 4.3.1(c) or otherwise), plus two (2) times the average of the highest three (3) annual bonuses (excluding Special Bonus Programs) paid by the Company to Executive over the five (5) calendar years preceding such termination; (b) continuation of Executive’s car usage or allowance payments, as set forth in Section 3.5, for a period six (6) months after Separation from Service, (c) a six thousand dollars (\$6,000) allowance for outplacement services payable at the same time as the severance payment provided under 4.4.1(a), and (d) acceleration of vesting of all stock options, equity grants and other incentive compensation awards (excluding any cash bonus attributable to performance in fiscal years that are not complete as of the Completion Date and any Special Bonus Programs) from the Company to Executive as follows: (i) grants vesting over time shall be fully vested on Separation from Service, (ii) grants vesting based on performance shall be accelerated and fully vested on Separation from Service without regard to whether the performance targets are met for such performance period, and (iii) the time to exercise nonqualified stock options shall be extended such that Executive’s right to exercise such stock options shall continue until the first anniversary of the Completion Date, but in no event later than the Expiration Date of the options, as defined under the stock option agreement covering such options.

4.4.2 **Change in Control.** Within ninety (90) days prior to or twelve (12) months after a Change of Control, if there is either (A) a notice of termination of this Agreement by the Company without Cause pursuant to Section 4.2.3, or (B) a notice of termination of this Agreement by Executive for Good Reason pursuant to Section 4.3.1, and such notice under (A) or (B) results in a Separation from Service such that the Executive does not continue to be employed by either the Company or the Parent, then:

(a) Equity, stock options and other incentive compensation awards (excluding any cash bonus attributable to performance in fiscal years that are not complete as of the Completion Date and any Special Bonus Programs) granted by the Company to Executive, whether time vested or performance vested, shall, to the extent unvested, immediately vest, and such stock options shall remain exercisable by Executive for no less than twelve (12) months after the date of such Separation from Service.

(b) If a termination of this Agreement is covered by this Section 4.4.2 is contingent upon a change in ownership or effective control of Company or a change in the ownership of a substantial portion of the assets of the Company (within the meaning of Section 280G(b)(2)(i) of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations thereunder (collectively, a “280G Event”)), then Executive, at his option, may elect to receive either of the of the following: (i) the compensation and benefits otherwise payable under Section 4.4.21, or (ii) the Alternative Payment (as defined below) in lieu of the compensation and benefits otherwise payable under Section 4.4.21. In order to elect the Alternative Payment, Executive must give written notice to Company of such election: (i) within fifteen (15) days after his resignation with Good Reason; or (ii) within fifteen (15) days after he is terminated by Company without Cause (each, a “Alternative Payment Notice”). For purposes of this Agreement, “Alternative Payment” means a lump sum payment made by Company to Executive as provided in Section 4.4.5, in immediately available funds in an amount equal to the product of

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2.99 (or, if Code Section 280G(b)(2)(A)(ii) is amended providing for a multiple other than 3, then the multiple as amended, less 0.01) *multiplied by* Executive’s “base amount” (as defined in Code Section 280G(b)(3) excluding payments under any Special Bonus Programs); provided, however, that in the case of a 280G Event, the amount of the Alternative Payment shall be reduced by the value of acceleration (as determined under Code Section 280G and the regulations thereunder) of any equity, stock options and incentive compensation accelerated hereunder. Payments to Executive upon termination of this Agreement under this Section 4.4.2 shall be subject to mitigation as provided in Treasury Regulations Section 1.280G-1 Q&A 42(c)(5). The value (as determined under Code Section 280G and the regulations thereunder) of acceleration of vesting of equity, stock options and incentive compensation granted by the Company to Executive shall be taken into account to the minimum extent necessary so as not to violate Treasury Regulations Section 1.280G-1 Q&A 42(c).

4.4.3 **Definition of Change in Control.** “Change in Control” means the occurrence of any of the following events during the Term of the Agreement: (i) any sale, lease, license, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the business and/or assets of the Company or the Parent; (ii) a merger or consolidation of the Company or the Parent and such entity is not the surviving entity; (iii) a reorganization or liquidation of the Company or the Parent; (iv) a merger, consolidation, tender offer or any other transaction involving the Company or the Parent if the equity holders of such entity immediately before such merger, consolidation, tender offer or other transaction do not own, directly or indirectly, immediately following such merger, consolidation, tender offer or other transaction, more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the entity resulting from such merger, consolidation, tender offer or other transaction; (v) Deepak Chopra ceases to be Chief Executive Officer of the Parent, unless his termination from employment with the Parent is by reason of a voluntary termination; (vi) a change in the composition of the Parent’s Board as a result of which fewer than a majority of the directors are Incumbent Directors; or (v) the consummation of any other transaction involving a significant issuance of the Company’s or the Parent’s securities, or other material event, that the Parent’s Board determines to be a Change in Control. The term “Incumbent Directors” shall mean directors who either: (A) are directors of the Parent as of the Effective Date hereof; or (B) are nominated for election to the Board of the Parent with the affirmative votes of at least a majority of the directors of the Parent who are Incumbent Directors (“Approved Successors”) described in (A) above at the time of such nomination; or (C) are nominated for election to the Board of the Parent with the affirmative votes of at least a majority of the directors of the Parent who are Incumbent Directors or their Approved Successors. Notwithstanding the foregoing, “Incumbent Directors” shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Parent.

4.4.4 **Benefit Continuation.** Subject to the terms of the Company's benefit plans, in the event of a termination of this Agreement by the Company without Cause pursuant to Section 4.2.3 or by Executive for Good Reason pursuant to Section 4.3.1, if at the Completion Date, the Executive was covered as an active employee under the Company's group health plan(s), the Executive will be entitled to purchase continuation coverage under Company's group health plan pursuant to the provisions of the Consolidated Omnibus Budget Reconciliation Act, 29 U.S.C. Section 1161, et. seq. ("COBRA") and applicable state law ("Continuation Coverage") for himself and his dependents, if such dependents constitute "qualified beneficiaries" under COBRA, and the following provisions will apply thereto:

- (a) The Company will pay the premiums for the Executive's and, as

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applicable, his eligible dependents' Continuation Coverage for coverage at the same level in which the Executive and, as applicable, his eligible dependents were enrolled as of the day before the Executive's termination of employment for the period beginning on his termination from employment and ending on the last day of the twelfth calendar month after the Executive's termination of employment (the "Continuation Period"). For purposes of this Agreement, the amounts contributed by the Company for Continuation Coverage on behalf of the Executive and, as applicable, his eligible dependents, are referred to as the "Premium Payments."

(b) In the event and on the date that the Executive becomes covered under another group health plan without any preexisting condition limitations or exclusions, the Company's obligation to pay the premiums for Continuation Coverage will cease. The Executive acknowledges that he is not entitled to the Premium Payments except as a contribution for Continuation Coverage and only as specifically provided herein. The Executive will promptly notify the Company in writing if he becomes covered under another group health plan prior to the end of the Continuation Period.

4.4.5 **Timing of Severance Payments.** Unless otherwise specified herein, amounts payable upon termination under this Section 4.4 shall be made in a single lump-sum cash payment, less appropriate deductions and withholding, within forty-five (45) days of the Executive's "Separation from Service" as such term is defined in Section 8.12 and subject to the limitations thereof. The Company's liability for wages and benefits upon termination of this Agreement is limited to the obligations set forth herein. For avoidance of doubt, during the period of any severance benefits after the Completion Date, Executive shall not be entitled to any Company provided matching with respect to any 401(k) plan of the Company. In the event of the acceleration of incentive compensation awards such as restricted stock units and stock appreciation rights (other than equity or stock options) in connection with a termination of Executive's employment by the Company, the value of such accelerated incentive compensation shall be payable in accordance with this Section 4.4.5.

4.4.6 **Stay Bonus.** In the event of the Executive continued employment until the Scheduled Retirement Date, Executive shall be entitled to a lump sum stay bonus equal to one (1) times the Executive's highest year out of the prior (5) years of total annual compensation, including: (a) Base Salary, (b) bonuses and incentive compensation excluding Special Bonus Programs, (c) the fair value of any stock, options or other equity grants whether or not vested, and (d) the annualized value of all benefits and perquisites, including without limitation those provided under Sections 3.4 and 3.5, (together referred to herein as the "Stay Bonus"), payable in a single lump-sum cash payment, less appropriate deductions and withholding, within forty-five (45) days of the Scheduled Retirement Date without regard to whether the Executive's continues employment beyond the Scheduled Retirement Date.

5. **PROTECTION OF CONFIDENTIAL INFORMATION; NON-SOLICIT.**

5.1 Executive acknowledges that his work for the Company will bring him into close contact with many confidential affairs of the Company not readily available to the public, and hereby agrees that he will not at any time (both during the Term and thereafter) disclose to any person, including any legal entity (except the Company and its Affiliates), any Confidential Information, and will only use Confidential Information for the Company's benefit; provided, however, that Executive may use and disclose Confidential Information to the extent necessary to assert any right or defend against any claim arising under this Agreement or pertaining to Confidential Information or its use, to the extent necessary to comply with any applicable statute, constitution, treaty, rule, regulation, ordinance or order, or if Executive receives a

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request to disclose all or any part of the information contained in the Confidential Information under the terms of a subpoena, order, civil investigative demand or similar process issued by a court of competent jurisdiction or by a governmental body or agency after giving prior notice to the Company so the Company can interpose any objection it may have. "Confidential Information" includes but is not limited to information or documents Executive has access to during the Term which relate to the Company's or its affiliates' or related entities' operations, marketing, sales, or product development including, without limitation, records that are identified as, or that can reasonably be characterized as, confidential; employee names, duties and contact information; customer identities and lists, customer contacts, information about customer requirements and preferences; forecasts, budgets, and other financial information; plans, strategic, tactical or otherwise; data, computer programs, manuals, formulae, specifications, processes, methods, intangible rights and other similar items; provided that "Confidential Information" does not include information that at the time of disclosure has previously been made generally available to the public by any authorized action of the Company or is otherwise available to the public. "Affiliate" is a person or entity that directly, or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Company.

5.2 Upon termination of this Agreement for any reason, Executive shall immediately return to the Company all Confidential Information in his possession, custody or control.

5.3 Executive agrees that he will not, during the Term and for a period of eighteen (18) months thereafter, solicit, directly or indirectly, (other than by means of general publication or advertisement) any individual who was an executive, supervisor or manager of the Company as of the Completion Date, or within 90 days prior to the Completion Date, to terminate his/her employment with the Company. Nothing herein shall prevent Executive from, at some point in the future, working for an entity which may also employ former employees of the Company.

6. **GRANT OF RIGHTS.**

6.1 Executive hereby grants, transfers, conveys and assigns to the Company, its successors and assigns, all right, title, and interest in and to all work, materials and intellectual property of any and all forms constituting or otherwise relating to his performance of his duties hereunder, including the

copyright, patent, trade secret rights, and all other right, title, and interest therein, and consisting of all source code, object code, documentation, flow charts, design documents, and record and file layouts relating thereto, and all trademarks, service marks, logos and trade dress associated therewith, and any discovery, concept or idea, whether or not patentable, made during such performance including, but not limited to, processes, methods, formulae and techniques, improvements thereof and know-how relating thereto (collectively, the "Property"). This exclusive conveyance shall include, but is not limited to, all rights to publish, reproduce, transmit, adapt, prepare derivative works, sell, or otherwise make use of the Property (including all subsequent additions, revisions, supplements to, and versions of the Property and derivatives, regardless of nature) throughout the world, in any form or medium and in any language, and to license or otherwise transfer to others the rights commensurate herewith in connection with the Property, to file copyright and patent applications in the United States and throughout the world for the Property in the name of the Company, its successors and assigns. Executive hereby agrees that the Company, its successors and assigns may act as attorney-in-fact to execute any document that the Company, its successors or assigns deem necessary to record this grant with the United States Copyright Office, the United States Patent and Trademark Office, or elsewhere. If requested, Executive agrees to execute any and all copyright, patent, or trade secret assignments, certificates, applications or documents requested by the Company, its successors and assigns related to the Property.

Executive's grant of rights in this Agreement is irrevocable and without right of rescission by Executive.

6.2 In furtherance of, and not in contravention, limitation and/or in place of, the provisions of Section 6.1 above, Company hereby notifies Executive of California Labor Code Section 2870, which provides:

6.2.1 "(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either: (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or (2) Result from any work performed by the employee for the employer.

6.2.2 (b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable."

6.3 Executive acknowledges that he has been notified by the Company of this law, and understands that this Agreement does not apply to Property which is otherwise fully protected under the provisions of said Labor Code Section 2870. Therefore, Executive agrees to promptly disclose in writing to the Company all Property, whether or not Executive personally considers it patentable, which Executive alone, or with others, conceives or makes during his employment with Company or as is otherwise required and set forth under this Section 6.2. Company shall hold said information in strict confidence to determine the applicability of California Labor Code Section 2870 to said Property and, to the extent said Section 2870 does not apply, Executive hereby assigns and agrees to assign all his right, title and interest in and to the Property which relates to business of the Company and Executive agrees not to disclose any of such Property to others without the prior written express consent of Company. Executive agrees to notify Company in writing prior to making any disclosure or performing any work during the term of his employment with Company which may conflict with any proprietary rights or technical know-how claimed by Executive as his property. In the event Executive fails to give Company notice of such conflict, Executive agrees that Executive shall have no further right or claim with respect to any such conflicting proprietary rights or technical know-how.

7. **EQUITABLE REMEDIES.** The parties hereto intend that the covenants contained in Sections 5 and 6 shall be enforced to the fullest extent permissible under the laws of the State of California. Executive acknowledges and agrees that his breach of any provision of Sections 5 and 6 will result in irreparable harm and injury to the Company, and further acknowledges and agrees that in the event of any such breach it would be extremely difficult to fix or assess actual damages resulting therefrom. In addition to any other remedy that may be available to the Company at law or in equity, the Company shall be entitled, from any court of competent jurisdiction, to a decree of specific performance and to a temporary and permanent injunction enjoining and restricting the breach, or a threatened breach, by Executive of any such provision of this Agreement.

8. **MISCELLANEOUS.**

8.1 **Entire Agreement.** This Agreement and the plans and policies referenced herein constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes and preempts any prior understandings, agreements or representations by or between the parties, written or oral, which may have related in any manner to the subject matter hereof. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by all the parties. The rule that a contract is construed against the party drafting the contract is hereby waived, and shall have no applicability in construing this Agreement or the terms hereof.

8.2 **Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.3 **Successors and Assigns.** Except as provided herein, this Agreement shall be binding on, and shall inure to the benefit of, the parties to it and their respective heirs, legal representatives, and permitted successors and assigns.

8.4 **Notices.** All notices required under this Agreement shall be given in writing and shall be served in person, by express mail, by certified mail, by overnight delivery, or by facsimile. Delivery shall be deemed conclusively made (i) at the time of service, if personally served, (ii) five days after deposit in the United States mail, properly addressed and postage prepaid, if delivered by express mail or certified mail, (iii) upon confirmation of delivery by the private overnight deliverer, if served by overnight delivery, and (iv) at the time of electronic transmission (as confirmed in writing), provided a copy is mailed within 24 hours after such transmission. Notices to the Company shall be delivered to the Company's then-current principal offices, to the attention of the Chief Executive Officer. Notices to the Executive shall be delivered to the address (or facsimile number, if any) provided to the Company by the Executive as his principal residence, or such other address or facsimile number as Executive may designate by written notice.

8.5 **Governing Law.** This Agreement shall be construed in accordance with and governed by the laws of the State of California.

8.6 **Venue.** The parties hereto agree that all actions or proceedings arising directly or indirectly from this Agreement shall be arbitrated or litigated by arbitrators or in courts having a situs within Los Angeles, California and hereby consent to the jurisdiction of any local, state or federal court in which such an action is commenced that is located in Los Angeles, California, agree not to disturb such choice of forum, waive the personal service of any and all process upon them, and consent that all such service of process may be made by certified or registered mail, return receipt requested, addressed to the respective parties at the address set forth herein.

8.7 **Severability.** If any provision of this Agreement, as applied to any party or to any circumstance, shall be found by a court or arbitrator of competent jurisdiction to be void, invalid or unenforceable, the same shall in no way affect any other provision of this Agreement, the application of any such provision in any other circumstance, or the validity or enforceability of this Agreement, and any provision which is found to be void, invalid or unenforceable shall be curtailed and limited only to the extent necessary to bring such provision within the requirements of the law.

8.8 **Headings.** Titles or captions contained herein are inserted as a matter of convenience and for reference, and in no way, define, limit, extend or describe the scope of this

Agreement or any provision thereof. No provision in this Agreement is to be interpreted for or against either party because that party or its legal representative drafted such provision.

8.9 **Further Assurances.** Each party agrees to execute and acknowledge such other instruments as may be reasonably necessary to effect the transactions contemplated herein.

8.10 **Remedies Cumulative.** All remedies shall be cumulative and pursuit of any one shall not waive any other.

8.11 **Waiver.** No waiver by any party at any time of any breach by any other party of, or compliance with, any condition or provision of the Agreement to be performed by any other party shall be deemed a waiver of any other provisions or conditions at the same time or at any prior or subsequent time.

8.12 **Application of Section 409A.** To the extent applicable, it is intended that this Agreement comply with the provisions of Section 409A of the Internal Revenue Code and the guidance promulgated thereunder ("Section 409A"). This Agreement shall be administered in a manner consistent with this intent, and any provision that would cause the Agreement to fail to satisfy Section 409A shall have no force and effect until amended by the parties to comply with Section 409A (which amendment may be retroactive to the extent permitted by Section 409A). Unless otherwise expressly provided, any payment of compensation by Company to Executive, whether pursuant to this Agreement or otherwise, shall be made no later than the 15th day of the third month (i.e. 2½ months) after the later of the end of the calendar year or the Company's fiscal year in which Executive's right to such payment vests (i.e., is not subject to a "substantial risk of forfeiture" for purposes of Code Section 409A). For purposes of this Agreement, "Separation from Service" shall have the meaning given to such term under Section 409A. Each payment and each installment of any severance payments provided for under this Agreement shall be treated as a separate payment for purposes of application of Section 409A. To the extent that any severance payments come within the definition of "short term deferrals" or "involuntary severance" under Section 409A, such amounts shall be excluded from "deferred compensation" as allowed under Section 409A, and shall not be subject to the following Section 409A compliance requirements. All payments of "nonqualified deferred compensation" (within the meaning of Section 409A) are intended to comply with the requirements of Section 409A, and shall be interpreted in accordance therewith. Neither party individually or in combination may accelerate, offset or assign any such deferred payment, except in compliance with Section 409A. No amount shall be paid prior to the earliest date on which it is permitted to be paid under Section 409A and Executive shall have no discretion with respect to the timing of payments except as permitted under Section 409A. Any payments to which Section 409A applies which are subject to execution of a waiver and release which may be executed and/or revoked in a calendar year following the calendar year in which the payment event (such as Separation from Service) occurs shall commence payment only in the calendar year in which the release revocation period ends as necessary to comply with Section 409A. In the event that Executive is determined to be a "key employee" (as defined and determined under Section 409A) of the Company at a time when its stock is deemed to be publicly traded on an established securities market, payments determined to be "nonqualified deferred compensation" payable upon separation from service shall be made no earlier than (i) the first day of the seventh (7th) complete calendar month following such termination of employment, or (ii) Executive's death, consistent with the provisions of Section 409A. Any payment delayed by reason of the prior sentence shall be paid out in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule. All expense reimbursement or in-kind benefits subject to Section 409A provided under this Agreement or, unless otherwise

specified in writing, under any Company program or policy, shall be subject to the following rules: (i) the amount of expenses eligible for reimbursement or in-kind benefits provided during one calendar year may not affect the benefits provided during any other year; (ii) reimbursements shall be paid no later than the end of the calendar year following the year in which the Executive incurs such expenses, and the Executive shall take all actions necessary to claim all such reimbursements on a timely basis to permit the Company to make all such reimbursement payments prior to the end of said period, and (iii) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit. Notwithstanding anything herein to the contrary, no amendment may be made to this Agreement if it would cause the Agreement or any payment hereunder not to be in compliance with Section 409A.

8.13 **Attorneys Fees.** Should any litigation or arbitration occur between the parties relating to this Agreement, the prevailing party shall be entitled to recover its reasonable attorneys' fees and other costs in connection with such litigation, including reasonable attorneys' fees, unless otherwise prohibited by statute or other applicable law, up to but not to exceed one hundred and fifty thousand dollars (\$150,000) which shall be due and payable no later than sixty (60) days following the date such judgment is entered. Any judgment shall include an attorneys' fees clause that shall entitle the judgment creditor to recover attorneys' fees incurred to enforce a judgment on this Agreement, which attorneys' fees shall be an element of post-judgment costs.

8.14 **Arbitration.** With the exception of any claims for workers compensation, unemployment insurance, claims before any governmental administrative agencies as required by applicable law, or claims related to the National Labor Relations Act, any controversy relating to this Agreement or Executive's employment by the Company shall be settled by Executive and the Company via binding arbitration according to the applicable employment dispute resolution rules of the American Arbitration Association's Employment Arbitration Rules and Mediation Procedures (available at

<http://www.adr.org>). Such arbitration shall be presided over by a single arbitrator in California. Such binding arbitration is applicable to any and all claims under state and federal employment related statutes including without limitation the Fair Employment and Housing Act, the Title VII of the Civil Rights Act, as well as any claims related to a claimed breach of this Agreement. The Company shall bear all costs uniquely associated with the arbitration process, including the arbitrator’s fees, if required by applicable law. The arbitrator shall have the authority to award any damages authorized by law. The prevailing party shall be entitled to his/its attorneys’ fees, unless otherwise prohibited by applicable law. This agreement to arbitrate shall apply to both the Company and Executive. **The Parties understand that they are giving up their right to a trial in a court of law.** This Agreement shall apply to any claims with respect to the Company or its related companies or Affiliates.

8.15 Executive acknowledges and agrees that this Agreement is being executed voluntarily, knowingly and without duress.

IN WITNESS WHEREOF, the parties hereto have executed this Employment Agreement to be effective as of the date first set forth above.

EXECUTIVE

/s/ Nicholas Ong
Nicholas Ong

OSI SYSTEMS, INC.

/s/ Deepak Chopra
By: Deepak Chopra, CEO

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Deepak Chopra, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2015

/s/ Deepak Chopra
Deepak Chopra
Chief Executive Officer

CERTIFICATION

Certification required by Rule 13a-14(a) or Rule 15d-14(a)
and under Section 302 of the Sarbanes-Oxley Act of 2002

I, Alan Edrick, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of OSI Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 30, 2015

/s/ Alan Edrick

Alan Edrick
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Deepak Chopra, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in the Report.

Date: October 30, 2015

/s/ Deepak Chopra

Deepak Chopra
Chief Executive Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of OSI Systems, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan Edrick, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) , as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods presented in the Report.

Date: October 30, 2015

/s/ Alan Edrick

Alan Edrick

Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, is not being filed as part of the Report or as a separate disclosure document, and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in any such filing. The signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.