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**UNITED STATES DISTRICT COURT
CENTRAL DISTRICT OF CALIFORNIA**

Case No.:

Plaintiff,

**CLASS ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

v.

OSI SYSTEMS, INC., DEEPAK
CHOPRA, and ALAN EDRICK,

JURY TRIAL DEMANDED

Defendants.

1 Plaintiff (“Plaintiff”), by and through his attorneys, alleges the
2 following upon information and belief, except as to those allegations concerning
3 Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and
4 belief is based upon, among other things, his counsel’s investigation, which includes
5 without limitation: (a) review and analysis of regulatory filings made by OSI
6 Systems, Inc. (“OSI” or the “Company”) with the United States (“U.S.”) Securities
7 and Exchange Commission (“SEC”); (b) review and analysis of press releases and
8 media reports issued by and disseminated by OSI; and (c) review of other publicly
9 available information concerning OSI.

10 **NATURE OF THE ACTION AND OVERVIEW**

11 1. This is a class action on behalf of persons and entities that acquired OSI
12 securities between August 21, 2013 and December 6, 2017, inclusive (the “Class
13 Period”), against the Defendants,¹ seeking to pursue remedies under the Securities
14 Exchange Act of 1934 (the “Exchange Act”).

15 2. OSI purportedly designs and manufactures specialized electronic
16 systems and components. The Company claims that it sells its products and
17 provides related services in diversified markets, including homeland security,
18 healthcare, defense, and aerospace.

19 3. On December 6, 2017, Muddy Watters Research published a report on
20 OSI entitled “OSIS: Rotten to the Core.” Therein, Muddy Waters alleges that there
21 was corruption in the 2013 award of OSI’s Albania concession. Muddy waters
22 claims that while the concession “has an estimated top line lifetime value of \$150
23 million to \$250 million,” OSI “likely bribed somebody by giving half of it away for
24 \$4.50” since “[t]here was an unannounced transfer of 49% of OSIS’s project
25 company, S2 Albania SHPK, to a holding company owned by an Albanian doctor,
26 for consideration of less than \$5.00.” Muddy waters also alleges that “investigators’
27

28 ¹ “Defendants” refers to OSI, Deepak Chopra, and Alan Edrick, collectively.

1 interviews with former employees yielded numerous anecdotes indicating OSIS is
2 rotten to the core,” including “knowledge of improper sales, cash payments to
3 government officials, fraud in a significant contract, and that OSIS had narrowly
4 avoided being debarred from doing business with the U.S. government.”

5 4. On this news, the Company’s stock price fell \$24.55 per share, or
6 29.2%, to close at \$59.52 per share on December 6, 2017, on unusually heavy
7 trading volume.

8 5. Throughout the Class Period, Defendants made materially false and/or
9 misleading statements, as well as failed to disclose material adverse facts about the
10 Company’s business, operations, and prospects. Specifically, Defendants failed to
11 disclose: (1) that OSI acquired the Albania concession through bribery or other
12 illicit means; (2) that OSI transferred 49% of its project company associated with
13 the Albania concession, S2 Albania SHPK, an entity purportedly worth millions, for
14 consideration of less than \$5.00; (3) that OSI engaged in other illegal acts, including
15 improper sales and cash payments to government officials; (4) that these practices
16 caused the Company to be vulnerable to potential civil and criminal liability, and
17 adverse regulatory action; and (5) that, as a result of the foregoing, Defendants’
18 statements about OSI’s business, operations, and prospects, were materially false
19 and/or misleading and/or lacked a reasonable basis.

20 6. As a result of Defendants’ wrongful acts and omissions, and the
21 precipitous decline in the market value of the Company’s securities, Plaintiff and
22 other Class members have suffered significant losses and damages.

23 **JURISDICTION AND VENUE**

24 7. The claims asserted herein arise under Sections 10(b) and 20(a) of the
25 Exchange Act (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated
26 thereunder by the SEC (17 C.F.R. § 240.10b-5).

27 8. This Court has jurisdiction over the subject matter of this action
28 pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. §

1 78aa).

2 9. Venue is proper in this Judicial District pursuant to 28 U.S.C. §
3 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts
4 in furtherance of the alleged fraud or the effects of the fraud have occurred in this
5 Judicial District. Many of the acts charged herein, including the dissemination of
6 materially false and/or misleading information, occurred in substantial part in this
7 Judicial District. In addition, the Company's principal executive offices are in the
8 Judicial District.

9 10. In connection with the acts, transactions, and conduct alleged herein,
10 Defendants directly and indirectly used the means and instrumentalities of interstate
11 commerce, including the United States mail, interstate telephone communications,
12 and the facilities of a national securities exchange.

13 **PARTIES**

14 11. Plaintiff _____, as set forth in the accompanying certification,
15 incorporated by reference herein, purchased OSI securities during the Class Period,
16 and suffered damages as a result of the federal securities law violations and false
17 and/or misleading statements and/or material omissions alleged herein.

18 12. Defendant OSI Systems, Inc. is incorporated in Delaware and its
19 principal executive offices are in Hawthorne, California. OSI's common stock
20 trades on the NASDAQ Stock Market ("NASDAQ") under the symbol "OSIS."

21 13. Defendant Deepak Chopra ("Chopra") was the Chief Executive Officer
22 ("CEO") of OSI at all relevant times.

23 14. Defendant Alan Edrick ("Edrick") was the Chief Financial Officer
24 ("CFO") of OSI at all relevant times.

25 15. Defendants Chopra and Edrick (collectively the "Individual
26 Defendants"), because of their positions with the Company, possessed the power
27 and authority to control the contents of OSI's reports to the SEC, press releases and
28 presentations to securities analysts, money and portfolio managers and institutional

1 investors, *i.e.*, the market. The Individual Defendants were provided with copies of
2 the Company's reports and press releases alleged herein to be misleading prior to, or
3 shortly after, their issuance and had the ability and opportunity to prevent their
4 issuance or cause them to be corrected. Because of their positions and access to
5 material non-public information available to them, the Individual Defendants knew
6 that the adverse facts specified herein had not been disclosed to, and were being
7 concealed from, the public, and that the positive representations which were being
8 made were then materially false and/or misleading. The Individual Defendants are
9 liable for the false statements pleaded herein.

10 **SUBSTANTIVE ALLEGATIONS**

11 **Background**

12 16. OSI purportedly designs and manufactures specialized electronic
13 systems and components. The Company claims that it sells its products and
14 provides related services in diversified markets, including homeland security,
15 healthcare, defense, and aerospace.

16 **Materially False and Misleading** 17 **Statements Issued During the Class Period**

18 17. The Class Period begins on August 21, 2013. On that day, the
19 Company issued a press release entitled "OSI Systems Receives Fifteen-Year
20 Agreement to Provide Turnkey Screening Services in Albania." Therein, the
21 Company, in relevant part, stated:

22 OSI Systems, Inc. (NASDAQ: OSIS), a vertically-integrated provider
23 of specialized electronics and services, today announced that the
24 Government of Albania has awarded its Security Division, Rapiscan
25 Systems, a fifteen-year contract to provide turnkey cargo and vehicle
26 security screening services at various sites throughout the country.

27 OSI Systems' CEO, Deepak Chopra, stated, "This significant award
28 from Albania to provide turnkey screening services builds upon similar
long-term agreements awarded by the Puerto Rico ports authority and
Mexico's tax and customs authority. Our strategy of expanding our
security offerings beyond the manufacture and sale of screening and
detection equipment by providing comprehensive turnkey screening
services continues to be well received in the marketplace. Our
experience and capability to develop and integrate leading edge

1 inspection technologies coupled with our depth of operational expertise
2 is unmatched in the industry and we believe makes us uniquely
qualified to secure and manage such complex programs.”

3 Under the program, Rapiscan Systems intends to provide a
4 comprehensive X-ray screening program, which will incorporate
5 technology, staffing, systems integration, and maintenance support at
6 sites throughout Albania. These operational capabilities are intended to
7 enhance the Albanian government’s capability to interdict contraband
and undeclared materials. The Company currently anticipates that total
gross revenues may range from \$150 million - \$250 million over the
term of the agreement. Actual revenues could differ significantly from
the range provided as the generation of revenue is based upon the
volume of cargo and other factors.

8
9 Ajay Mehra, President of Rapiscan Systems, stated, “The Albanian
10 government’s initiative to secure its ports and land crossings represents
11 another significant step in the security inspection arena. We are proud
to have been selected to execute this critical program. Our selection
reinforces the attractiveness and compelling value of our turnkey
service model.”

12 18. On August 25, 2014 OSI issued a press release entitled “OSI Systems
13 Reports Fourth Quarter and Fiscal Year 2014 Financial Results.” Therein, the
14 Company, in relevant part, stated:

15 OSI Systems, Inc. (NASDAQ: OSIS) today announced financial results
16 for its fourth quarter and fiscal year ended June 30, 2014.

17 Deepak Chopra, OSI Systems President and CEO, stated, “We are
18 pleased to report record results for our fourth quarter. Led by our
19 Security Division, we reported a 14% increase in sales with strong
20 bookings highlighted by a significant Foreign Military Sales (FMS)
contract from the U.S. Department of Defense. Our substantial backlog
and pipeline of opportunities place us in a solid position heading into
our new fiscal year.”

21 The Company reported revenues of \$260 million for the fourth quarter
22 of fiscal 2014, an increase of 14% from the \$228 million reported for
23 the fourth quarter of fiscal 2013. Net income for the fourth quarter of
24 fiscal 2014 was \$22.1 million, or \$1.07 per diluted share, compared to
25 net income of \$11.8 million, or \$0.58 per diluted share, for the fourth
26 quarter of fiscal 2013. Excluding the impact of impairment,
restructuring and other charges and the impact of tax elections
discussed below, net income for the fourth quarter of fiscal 2014 would
have been \$24.5 million, or \$1.19 per diluted share, compared to net
income of \$20.9 million, or \$1.02 per diluted share, for the fourth
quarter of fiscal 2013. Adjusted EBITDA for the fourth quarter of fiscal
2014 was \$51.1 million, an increase of 17% from \$43.8 million for the
fourth quarter of fiscal 2013.

27
28 For the fiscal year ended June 30, 2014, the Company reported
revenues of \$907 million, a 13% increase from the \$802

1 million reported for fiscal 2013. Net income for fiscal 2014 was \$47.9
2 million, or \$2.33 per diluted share, compared to net income of \$44.1
3 million, or \$2.15 per diluted share, in fiscal 2013. Excluding the impact
4 of impairment, restructuring and other charges and the impact of tax
5 elections discussed below, net income for fiscal 2014 would have
6 been \$64.3 million, or \$3.13 per diluted share, compared to net income
7 of \$56.8 million, or \$2.76 per diluted share, for fiscal 2013. Adjusted
8 EBITDA for fiscal 2014 was \$164.6 million, an increase of 30%
9 from \$126.4 million for fiscal 2013.

10 As of June 30, 2014, the Company's backlog was approximately \$0.8
11 billion, which was comparable to the backlog as of March 31, 2014.
12 During fiscal 2014, the Company generated cash flow from operations
13 of \$129.2 million and capital expenditures were \$54.6 million.

14 Mr. Chopra continued, "During the fourth quarter, our Security
15 Division's sales growth was outstanding, increasing 45% over the prior
16 year period. This strength was seen across multiple sales channels and
17 product lines. With a record non-turnkey backlog, we believe we are
18 well positioned for continued growth in this division."

19 Mr. Chopra further commented, "Our Healthcare Division finished a
20 challenging year with a disappointing fourth quarter as revenues
21 decreased 15% from the prior year period primarily due to uncertainties
22 in the capital spending environment among North American hospitals.
23 Despite this setback, we are optimistic that our expanded product
24 offering and an anticipated rebound in the North American market will
25 lead to a return to revenue growth."

26 Mr. Chopra concluded, "Our Optoelectronics and Manufacturing
27 Division had essentially a flat fourth fiscal quarter in terms of revenues
28 but delivered lower profitability due primarily to an unfavorable
product sales mix. This division, however, continues to expand its
customer base across several industries with OEMs that need a global
manufacturing footprint. As we enter fiscal 2015, we will continue to
look for ways to increase productivity and efficiencies and improve the
operating margin of our Optoelectronics and Manufacturing Division."

During the third quarter of fiscal 2014, the Company made certain tax
elections related to the turnkey program in Mexico to accelerate
depreciation and realize cash tax savings of approximately \$21 million.
In doing so, the Company forfeited tax basis in certain fixed assets that
resulted in a charge to income tax of \$7.6 million. The Company made
a similar election during the fourth quarter of fiscal 2013 that resulted
in a charge to income tax of \$6.8 million. These elections resulted in an
effective tax rate of 36.9% and 36.4% for fiscal years 2014 and 2013,
respectively, and 25.4% and 52.7% for the fourth quarters of fiscal
2014 and 2013, respectively. Had these elections not been made, the
effective tax rate would have been 26.8% and 26.6% for fiscal 2014
and 2013, respectively, and 25.4% for each of the fourth quarters of
fiscal 2014 and 2013. Such tax election is no longer available under
Mexican tax law beginning January 1, 2014.

1 During the quarter, the Company's book-to-bill ratio for equipment and
2 related services (non-turnkey) was 1.2 and, as of June 30, 2015, the
3 Company's backlog was \$638 million. During fiscal 2015, the
4 Company generated cash flow from operations of \$105.1 million.

5 Mr. Chopra further commented, "Sales in our Healthcare Division
6 increased by 29% over the prior year fourth quarter driven by
7 significant growth in our U.S. patient monitoring business and the
8 impact of an acquisition completed in the first quarter. New products
9 have been well received, contributing to a very strong quarter providing
10 nice momentum as we head into fiscal 2016."

11 Mr. Chopra continued, "Our Security Division's fourth quarter sales
12 of \$131 million were solid. Due to the difficult comparison from the
13 partial fulfillment of our Foreign Military Sale contract with the U.S.
14 Department of Defense in the fourth quarter of the prior year, revenues
15 were down 7%. We are encouraged by the prospects of continued
16 strong performance with the strength of the backlog, new cargo and
17 vehicle inspection product orders, multiple wins for the recently
18 introduced RTT™ 110 (Real Time Tomography) explosives detection
19 systems, and a robust pipeline of opportunities throughout our product
20 and turnkey portfolio."

21 Mr. Chopra concluded, "During the fourth quarter our Optoelectronics
22 and Manufacturing Division realized solid operating margin
23 improvement and completed a significant facility consolidation within
24 our contract manufacturing business. This initiative, as well as the
25 recent deployment of other efficiency enhancements in our Healthcare
26 and Security Divisions, will benefit our operations going forward."

27 **Company Outlook - Guidance for Fiscal 2016**

28 Subject to the risks described herein, the Company anticipates fiscal
2016 sales to be between \$985 million and \$1,020 million. In addition,
the Company anticipates earnings per diluted share of \$3.75 to \$4.00,
excluding the impact of restructuring and other charges.

21. On August 24, 2015, the Company filed its annual report on Form 10-K
for the year ended June 30, 2015. The 10-K was signed by Defendant Edrick, and
reaffirmed the Company's statements about its financial results contained in the
press release issued on August 20, 2015.

22. On August 16, 2016 OSI issued a press release entitled "OSI Systems
Reports Fourth Quarter and Fiscal Year 2016 Financial Results." Therein, the
Company, in relevant part, stated:

OSI Systems, Inc. (NASDAQ: OSIS) today announced financial results
for its fourth quarter and fiscal year ended June 30, 2016.

1 Deepak Chopra, OSI Systems' President and CEO, stated, "While our
2 fourth quarter and full year operating results, in part, reflect the
3 challenges of fiscal 2016, we are optimistic about our prospects for
4 fiscal 2017. We are confident that our strengthened leadership team,
enhanced product portfolios and robust pipeline of opportunities across
each of our divisions position us well for top line growth and expanded
profitability in fiscal 2017."

5 The Company reported revenues of \$221 million for the fourth quarter
6 of fiscal 2016, a decrease of 17% from the \$267 million reported for
7 the fourth quarter of fiscal 2015. Net income for the fourth quarter of
8 fiscal 2016 was \$5.9 million, or \$0.30 per diluted share, compared to
9 net income of \$22.4 million, or \$1.09 per diluted share, for the fourth
quarter of fiscal 2015. Excluding the impact of impairment,
restructuring and other charges, net income for the fourth quarter of
fiscal 2016 would have been \$10.8 million, or \$0.55 per diluted share,
compared to net income of \$25.0 million, or \$1.22 per diluted share, for
the fourth quarter of fiscal 2015.

10 For the fiscal year ended June 30, 2016, the Company reported
11 revenues of \$830 million, a 13% decrease from the \$958
12 million reported for fiscal 2015. Net income for fiscal 2016 was \$26.2
13 million, or \$1.30 per diluted share, compared to net income of \$65.2
14 million, or \$3.17 per diluted share, in fiscal 2015. Excluding the impact
of impairment, restructuring and other charges, net income for fiscal
2016 would have been \$42.4 million, or \$2.11 per diluted share,
compared to net income of \$72.4 million, or \$3.53 per diluted share, for
fiscal 2015.

15 During the quarter ended June 30, 2016, the Company's book-to-bill
16 ratio for equipment and related services (non-turnkey) was 1.0 and, as
of June 30, 2016, the Company's backlog was \$623 million. During
17 fiscal 2016, the Company generated cash flow from operations of \$59.2
million.

18 Mr. Chopra further commented, "Bookings were solid throughout fiscal
19 2016 in the Security Division. The combination of various contract
20 push-outs and slower conversion of backlog into revenues resulted in
lighter sales during the fourth quarter in comparison with a very strong
21 performance in the same period of the prior year. We expect significant
growth in fiscal 2017 driven across many product lines including the
22 RTT™ 110 (Real Time Tomography) explosives detection systems.
Multiple significant wins during fiscal 2016 and continuing into fiscal
2017 are expected to lead to sizeable revenue growth in this product
23 line in the coming year. The future of the RTT™ 110 looks bright as it
continues its trajectory towards a market leadership position
24 in Europe and Middle East. We are also very encouraged by the
outstanding performance of our turnkey security screening services
25 operations in fiscal 2016 and the pipeline of opportunities for further
turnkey awards in fiscal 2017."

26 Mr. Chopra continued, "Operating efficiencies in the Optoelectronics
27 and Manufacturing Division continued to drive year over year profit
28 growth. Though external sales decreased by 1% during the fourth
quarter from the prior year, we were able to achieve operating margin

1 improvement on a lower revenue base in the fourth quarter as we have
2 throughout fiscal 2016.”

3 Mr. Chopra concluded, “As anticipated, sales in our Healthcare
4 Division increased from the third quarter but were down year over year.
5 As we enter fiscal 2017, we are optimistic about our Healthcare
6 business in general due to adjustments to our product portfolio and
7 changes in the Division’s leadership and, as a result, we expect to
8 return to growth in fiscal 2017.”

6 **Fiscal Year 2017 Outlook**

7 Subject to the risks described in this release, the Company anticipates
8 fiscal 2017 sales to grow 4% - 8% to \$865 million - \$895 million. In
9 addition, the Company anticipates 23% - 37% growth in earnings per
10 diluted share to \$2.60 to \$2.90, excluding the impact of impairment,
11 restructuring and other charges and their related tax effects. This
12 guidance does not include the impact from any pending or potential
13 acquisitions. Actual sales and diluted earnings per share could vary
14 from this guidance including as a result of the matters discussed under
15 the “Forward-Looking Statements” section. The Company’s 2017
16 diluted earnings per share guidance is provided on a non-GAAP basis
17 only, due primarily to the variability and difficulty in making accurate
18 forecasts and projections of impairment, restructuring and other charges
19 and their related tax effects.

14 23. On August 19, 2016, the Company filed its annual report on Form 10-K
15 for the year ended June 30, 2016. The 10-K was signed by Defendant Edrick, and
16 reaffirmed the Company’s statements about its financial results contained in the
17 press release issued on August 16, 2016.

18 24. On August 24, 2017 OSI issued a press release entitled “OSI Systems
19 Reports Fourth Quarter and Fiscal Year 2017 Financial Results.” Therein, the
20 Company, in relevant part, stated:

21 OSI Systems, Inc. (the “Company” or “OSI Systems”) (NASDAQ:
22 OSIS) today announced financial results for the quarter and fiscal year
23 ended June 30, 2017.

24 “We are pleased to announce outstanding fiscal fourth quarter results.
25 Each of our three operating divisions contributed to the successful
26 conclusion of a strong fiscal year. Performance at the Security division,
27 in particular, drove top-line growth and margin expansion,”
28 said Deepak Chopra, OSI Systems’ Chairman and Chief Executive
Officer.

27 The Company reported revenues of \$252 million for the fourth quarter
28 of fiscal 2017, an increase of 14% from the \$221 million reported for
the fourth quarter of fiscal 2016. Net income for the fourth quarter of
fiscal 2017 was \$1.5 million, or \$0.08 per diluted share, compared to

1 net income of \$5.9 million, or \$0.30 per diluted share, for the fourth
2 quarter of fiscal 2016. Non-GAAP net income for the fourth quarter of
3 fiscal 2017 was \$19.9 million, or \$1.02 per diluted share, compared to
non-GAAP net income for the fourth quarter of fiscal 2016 of \$11.4
million, or \$0.58 per diluted share.

4 For the fiscal year ended June 30, 2017, the Company reported
5 revenues of \$961 million, an increase of 16% as compared to the same
6 period a year ago. Net income for fiscal 2017 was \$21.1 million,
7 or \$1.07 per diluted share, compared to net income of \$26.2 million,
8 or \$1.30 per diluted share, in the same period a year ago. Non-GAAP
net income for the fiscal year ended June 30, 2017 was \$58.8 million,
9 or \$2.99 per diluted share, compared to non-GAAP net income of \$44.3
10 million, or \$2.21 per diluted share, for the 2016 fiscal year.

11 During the three months ended June 30, 2017, the Company's book-to-
12 bill ratio for equipment and related services (non-turnkey) was 1.4. As
of June 30, 2017 the Company's backlog (measured as quantifiable
13 purchase orders or contracts for which revenues are expected to be
14 recognized within the next five years) was \$738 million, compared
15 to \$623 million as of June 30, 2016. During fiscal 2017, cash flow
16 generated from operations was \$62.8 million and capital expenditures
17 were \$17.1 million.

18 Mr. Chopra stated, "Our Security division had an outstanding finish to
19 the year. Fourth quarter revenues increased 33% to a record \$147
20 million, \$23 million of which was generated by our AS&E business,
21 which we acquired in September 2016. Excluding the AS&E revenues,
22 fourth quarter sales in our Security division increased 12% over sales
23 in the same prior-year fiscal period. We leveraged our growth and
benefitted from synergies from the AS&E acquisition to significantly
24 improve our fourth quarter year-over-year operating income excluding
the impact of impairment, restructuring and other charges."

25 Mr. Chopra further commented, "Our Optoelectronics and
26 Manufacturing division closed the year with an outstanding operating
27 margin due to operational improvements, together with a more
28 favorable product mix and a migration to more profitable customers."

Mr. Chopra concluded, "Our Healthcare business continued to emerge
from previous operating difficulties and a challenging hospital
spending environment. During the fourth quarter, sales decreased by
3%; however, excluding the impact of a non-core healthcare business
divestiture in February 2017, fourth quarter sales increased by 7% over
the prior year. We believe that we are well-positioned for top-line
growth and margin expansion heading into fiscal 2018."

Fiscal Year 2018 Outlook

Subject to risks described in this press release, the Company anticipates
8% to 12% growth in fiscal 2018 sales to \$1,040,000,000 -
\$1,080,000,000. In addition, the Company anticipates 12% to 20%
growth in non-GAAP earnings per diluted share to \$3.35 - \$3.60,
excluding the fiscal 2018 impact of impairment, restructuring and other
charges, amortization of acquired intangible assets and non-cash

1 interest expense, and their related tax effects. As a result of the matters
2 discussed under “Forward-Looking Statements,” actual sales and non-
GAAP diluted earnings per share could vary from this guidance.

3 The Company’s fiscal 2018 diluted earnings per share guidance is
4 provided on a non-GAAP basis only. The Company does not provide a
5 reconciliation of non-GAAP diluted EPS guidance on a forward-
6 looking basis to GAAP diluted EPS, the most directly comparable
GAAP measure, because it is unable to provide a meaningful or
accurate compilation of reconciling items and certain information is not
available.

7 25. On September 9, 2017, the Company filed its annual report on Form
8 10-K for the year ended June 30, 2017. The 10-K was signed by Defendant Edrick,
9 and reaffirmed the Company’s statements about its financial results contained in the
10 press release issued on August 24, 2017.

11 26. The above statements identified in ¶¶17-25 were materially false and/or
12 misleading, and failed to disclose material adverse facts about the Company’s
13 business, operations, and prospects. Specifically, Defendants failed to disclose: (1)
14 that OSI acquired the Albania concession through bribery or other illicit means; (2)
15 that OSI transferred 49% of its project company associated with the Albania
16 concession, S2 Albania SHPK, an entity purportedly worth millions, for
17 consideration of less than \$5.00; (3) that OSI engaged in other illegal acts, including
18 improper sales and cash payments to government officials; (4) that these practices
19 caused the Company to be vulnerable to potential civil and criminal liability, and
20 adverse regulatory action; and (5) that, as a result of the foregoing, Defendants’
21 statements about OSI’s business, operations, and prospects, were materially false
22 and/or misleading and/or lacked a reasonable basis.

23 **Disclosures at the End of the Class Period**

24 27. On December 6, 2017, Muddy Waters Research published a report on
25 OSI entitled “OSIS: Rotten to the Core.” Therein, Muddy Waters alleges that there
26 was corruption in the 2013 award of OSI’s Albania concession. Muddy waters
27 claims that while the concession “has an estimated top line lifetime value of \$150
28 million to \$250 million,” OSI “likely bribed somebody by giving half of it away for

1 \$4.50” since “[t]here was an unannounced transfer of 49% of OSIS’s project
2 company, S2 Albania SHPK, to a holding company owned by an Albanian doctor,
3 for consideration of less than \$5.00.” Muddy waters also alleges that “investigators’
4 interviews with former employees yielded numerous anecdotes indicating OSIS is
5 rotten to the core,” including “knowledge of improper sales, cash payments to
6 government officials, fraud in a significant contract, and that OSIS had narrowly
7 avoided being debarred from doing business with the U.S. government.” In greater
8 part, the summary contained in the Muddy Waters report stated:

9 We are short OSI Systems, Inc. (OSIS.US) because we think it is rotten
10 to the core. We believe it obtained a major turnkey contract in Albania
11 through corruption. It is likely that OSIS’s accounts are misstated as a
12 result. We believe the pricing of its Mexico turnkey contract does not
13 stand up to scrutiny. We estimate that the contract is so rich, it
14 accounted for more than 50% of OSIS’s FY2017 EBITDA, despite
15 being only 15% of revenue. Put another way, we estimate the Mexico
16 contract’s EBITDA margin is approximately 55%, which would mean
17 the rest of OSIS has an EBITDA margin of a paltry 7.5%. This contract
18 is up for renewal in 2018, and nonrenewal would seemingly have an
19 enormous impact on OSIS’s profits. It also implies that there is
20 significant room for price adjustment downward, which could have a
21 material impact on profits. Former employees’ statements support our
22 view that OSIS is rotting from the inside.

23 Corruption in the 2013 award of OSIS’s Albania concession is more
24 obvious than a three-liter bottle of shampoo in your carryon luggage.
25 The concession has an estimated top line lifetime value of \$150 million
26 to \$250 million. However, OSIS either appears to value the total
27 concession at \$9.00 (yes, nine dollars), or they likely bribed somebody
28 by giving half of it away for \$4.50. There was an unannounced transfer
of 49% of OSIS’s project company, S2 Albania SHPK, to a holding
company owned by an Albanian doctor, for consideration of less than
\$5.00. To be clear, this company (S2 Albania SHPK) is the company to
which all rights and obligations under the turnkey contract award
belong, so 49% of the company is presumably worth many millions of
dollars. It appears to us that OSIS’s accounts do not reflect the transfer
– there are no deductions for non-controlling interests in the income
statement, and February 2017 bond offering documents appear to show
the subsidiary as 100% owned by OSIS.

There have been numerous news reports in Albania accusing OSIS of
corruptly obtaining the concession, and a senior member of parliament
has called the award corrupt on the record. Amazingly, U.S. investors
appear to have no inkling of these allegations.

Turnkey contracts seem particularly well-suited to corruption. If a
government is only purchasing scanning equipment, it is relatively easy
for an internal auditor to spot an overpayment because the equipment is

1 somewhat commoditized. However, when bundling in various bespoke
2 services, the pricing suddenly becomes much more opaque. Given this
3 reality, it is perhaps not surprising that the turnkey contracts to date are
4 in jurisdictions not known for their strong governance.

5 Beyond the turnkey contracts, investigators' interviews with former
6 employees yielded numerous anecdotes indicating OSIS is rotten to the
7 core. Former employees alleged a list of rot they experienced at
8 Rapiscan, including their concern about possibly going to prison,
9 knowledge of improper sales, cash payments to government officials,
10 fraud in a significant contract, and that OSIS had narrowly avoided
11 being debarred from doing business with the U.S. government.

12 This corrupt behavior puts at significant risk OSIS's Security Division
13 contracts with U.S. and European government agencies. The only
14 former employee who, in our view, made unreservedly positive
15 comments about OSIS's compliance admitted that OSIS could lose
16 significant government business if it engaged in corruption. Although
17 this senior executive was at OSIS when the transfer of 49% of S2
18 Albania occurred, he professed no knowledge of the transaction. Either
19 way, his professed lack of knowledge is telling – he was kept out of the
20 loop, which we would not have expected given his role; or, he was not
21 responding truthfully to the question.

22 In addition, OSIS could face liability under the Foreign Corrupt
23 Practices Act (“FCPA”), which could be in the many hundreds of
24 millions of dollars. The U.S. Department of Justice has been aggressive
25 in prosecuting FCPA violations in both Republican and Democratic
26 administrations. (FCPA settlements generate meaningful revenue
27 generators for the federal government.) In October 2015, we announced
28 we were short Telia Company (TELIA SS) because we believed the
corruption issues in its business were significantly larger than had been
disclosed, and that it would likely settle at \$1 billion or more. Just three
months ago (September 2017), Telia agreed to settle with the DOJ and
assisting regulators for \$966 million. At these levels, there is room for a
FCPA settlement that would equal a significant chunk of OSIS's
market cap.

(Footnotes omitted.)

28. On this news, the Company's stock price fell \$24.55 per share, or
29.2%, to close at \$59.52 per share on December 6, 2017, on unusually heavy
trading volume.

CLASS ACTION ALLEGATIONS

29. Plaintiff brings this action as a class action pursuant to Federal Rule of
Civil Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and
entities that acquired OSI securities between August 21, 2013 and December 6,
2017, inclusive, and who were damaged thereby (the “Class”). Excluded from the

1 Class are Defendants, the officers and directors of the Company, at all relevant
2 times, members of their immediate families and their legal representatives, heirs,
3 successors, or assigns, and any entity in which Defendants have or had a controlling
4 interest.

5 30. The members of the Class are so numerous that joinder of all members
6 is impracticable. Throughout the Class Period, OSI's common stock actively traded
7 on the NASDAQ. While the exact number of Class members is unknown to
8 Plaintiff at this time and can only be ascertained through appropriate discovery,
9 Plaintiff believes that there are at least hundreds or thousands of members in the
10 proposed Class. Millions of OSI shares were traded publicly during the Class
11 Period on the NASDAQ. As of October 26, 2017, OSI had 18,968,450 shares of
12 common stock outstanding. Record owners and other members of the Class may be
13 identified from records maintained by OSI or its transfer agent and may be notified
14 of the pendency of this action by mail, using the form of notice similar to that
15 customarily used in securities class actions.

16 31. Plaintiff's claims are typical of the claims of the members of the Class
17 as all members of the Class are similarly affected by Defendants' wrongful conduct
18 in violation of federal law that is complained of herein.

19 32. Plaintiff will fairly and adequately protect the interests of the members
20 of the Class and has retained counsel competent and experienced in class and
21 securities litigation.

22 33. Common questions of law and fact exist as to all members of the Class
23 and predominate over any questions solely affecting individual members of the
24 Class. Among the questions of law and fact common to the Class are:

25 (a) whether the federal securities laws were violated by Defendants' acts as
26 alleged herein;

27 (b) whether statements made by Defendants to the investing public during
28 the Class Period omitted and/or misrepresented material facts about the business,

1 operations, and prospects of OSI; and

2 (c) to what extent the members of the Class have sustained damages and
3 the proper measure of damages.

4 34. A class action is superior to all other available methods for the fair and
5 efficient adjudication of this controversy since joinder of all members is
6 impracticable. Furthermore, as the damages suffered by individual Class members
7 may be relatively small, the expense and burden of individual litigation makes it
8 impossible for members of the Class to individually redress the wrongs done to
9 them. There will be no difficulty in the management of this action as a class action.

10 **UNDISCLOSED ADVERSE FACTS**

11 35. The market for OSI's securities was open, well-developed and efficient
12 at all relevant times. As a result of these materially false and/or misleading
13 statements, and/or failures to disclose, OSI's securities traded at artificially inflated
14 prices during the Class Period. Plaintiff and other members of the Class purchased
15 or otherwise acquired OSI's securities relying upon the integrity of the market price
16 of the Company's securities and market information relating to OSI, and have been
17 damaged thereby.

18 36. During the Class Period, Defendants materially misled the investing
19 public, thereby inflating the price of OSI's securities, by publicly issuing false
20 and/or misleading statements and/or omitting to disclose material facts necessary to
21 make Defendants' statements, as set forth herein, not false and/or misleading. The
22 statements and omissions were materially false and/or misleading because they
23 failed to disclose material adverse information and/or misrepresented the truth about
24 OSI's business, operations, and prospects as alleged herein.

25 37. At all relevant times, the material misrepresentations and omissions
26 particularized in this Complaint directly or proximately caused or were a substantial
27 contributing cause of the damages sustained by Plaintiff and other members of the
28 Class. As described herein, during the Class Period, Defendants made or caused to

1 be made a series of materially false and/or misleading statements about OSI's
2 financial well-being and prospects. These material misstatements and/or omissions
3 had the cause and effect of creating in the market an unrealistically positive
4 assessment of the Company and its financial well-being and prospects, thus causing
5 the Company's securities to be overvalued and artificially inflated at all relevant
6 times. Defendants' materially false and/or misleading statements during the Class
7 Period resulted in Plaintiff and other members of the Class purchasing the
8 Company's securities at artificially inflated prices, thus causing the damages
9 complained of herein when the truth was revealed.

10 **LOSS CAUSATION**

11 38. Defendants' wrongful conduct, as alleged herein, directly and
12 proximately caused the economic loss suffered by Plaintiff and the Class.

13 39. During the Class Period, Plaintiff and the Class purchased OSI's
14 securities at artificially inflated prices and were damaged thereby. The price of the
15 Company's securities significantly declined when the misrepresentations made to
16 the market, and/or the information alleged herein to have been concealed from the
17 market, and/or the effects thereof, were revealed, causing investors' losses.

18 **SCIENTER ALLEGATIONS**

19 40. As alleged herein, Defendants acted with scienter since Defendants
20 knew that the public documents and statements issued or disseminated in the name
21 of the Company were materially false and/or misleading; knew that such statements
22 or documents would be issued or disseminated to the investing public; and
23 knowingly and substantially participated or acquiesced in the issuance or
24 dissemination of such statements or documents as primary violations of the federal
25 securities laws. As set forth elsewhere herein in detail, the Individual Defendants,
26 by virtue of their receipt of information reflecting the true facts regarding OSI, their
27 control over, and/or receipt and/or modification of OSI's allegedly materially
28 misleading misstatements and/or their associations with the Company which made

1 them privy to confidential proprietary information concerning OSI, participated in
2 the fraudulent scheme alleged herein.

3 **APPLICABILITY OF PRESUMPTION OF RELIANCE**
4 **(FRAUD-ON-THE-MARKET DOCTRINE)**

5 41. The market for OSI's securities was open, well-developed and efficient
6 at all relevant times. As a result of the materially false and/or misleading statements
7 and/or failures to disclose, OSI's securities traded at artificially inflated prices
8 during the Class Period. On October 12, 2017, the Company's stock price closed at
9 a Class Period high of \$95.76 per share. Plaintiff and other members of the Class
10 purchased or otherwise acquired the Company's securities relying upon the integrity
11 of the market price of OSI's securities and market information relating to OSI, and
12 have been damaged thereby.

13 42. During the Class Period, the artificial inflation of OSI's stock was
14 caused by the material misrepresentations and/or omissions particularized in this
15 Complaint causing the damages sustained by Plaintiff and other members of the
16 Class. As described herein, during the Class Period, Defendants made or caused to
17 be made a series of materially false and/or misleading statements about OSI's
18 business, prospects, and operations. These material misstatements and/or omissions
19 created an unrealistically positive assessment of OSI and its business, operations,
20 and prospects, thus causing the price of the Company's securities to be artificially
21 inflated at all relevant times, and when disclosed, negatively affected the value of
22 the Company stock. Defendants' materially false and/or misleading statements
23 during the Class Period resulted in Plaintiff and other members of the Class
24 purchasing the Company's securities at such artificially inflated prices, and each of
25 them has been damaged as a result.

26 43. At all relevant times, the market for OSI's securities was an efficient
27 market for the following reasons, among others:

28 (a) OSI stock met the requirements for listing, and was listed and actively

1 traded on the NASDAQ, a highly efficient and automated market;

2 (b) As a regulated issuer, OSI filed periodic public reports with the SEC
3 and/or the NASDAQ;

4 (c) OSI regularly communicated with public investors via established
5 market communication mechanisms, including through regular dissemination of
6 press releases on the national circuits of major newswire services and through other
7 wide-ranging public disclosures, such as communications with the financial press
8 and other similar reporting services; and/or

9 (d) OSI was followed by securities analysts employed by brokerage firms
10 who wrote reports about the Company, and these reports were distributed to the
11 sales force and certain customers of their respective brokerage firms. Each of these
12 reports was publicly available and entered the public marketplace.

13 44. As a result of the foregoing, the market for OSI's securities promptly
14 digested current information regarding OSI from all publicly available sources and
15 reflected such information in OSI's stock price. Under these circumstances, all
16 purchasers of OSI's securities during the Class Period suffered similar injury
17 through their purchase of OSI's securities at artificially inflated prices and a
18 presumption of reliance applies.

19 45. A Class-wide presumption of reliance is also appropriate in this action
20 under the Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United*
21 *States*, 406 U.S. 128 (1972), because the Class's claims are, in large part, grounded
22 on Defendants' material misstatements and/or omissions. Because this action
23 involves Defendants' failure to disclose material adverse information regarding the
24 Company's business operations and financial prospects—information that
25 Defendants were obligated to disclose—positive proof of reliance is not a
26 prerequisite to recovery. All that is necessary is that the facts withheld be material
27 in the sense that a reasonable investor might have considered them important in
28 making investment decisions. Given the importance of the Class Period material

1 misstatements and omissions set forth above, that requirement is satisfied here.

2 **NO SAFE HARBOR**

3 46. The statutory safe harbor provided for forward-looking statements
4 under certain circumstances does not apply to any of the allegedly false statements
5 pleaded in this Complaint. The statements alleged to be false and misleading herein
6 all relate to then-existing facts and conditions. In addition, to the extent certain of
7 the statements alleged to be false may be characterized as forward looking, they
8 were not identified as “forward-looking statements” when made and there were no
9 meaningful cautionary statements identifying important factors that could cause
10 actual results to differ materially from those in the purportedly forward-looking
11 statements. In the alternative, to the extent that the statutory safe harbor is
12 determined to apply to any forward-looking statements pleaded herein, Defendants
13 are liable for those false forward-looking statements because at the time each of
14 those forward-looking statements was made, the speaker had actual knowledge that
15 the forward-looking statement was materially false or misleading, and/or the
16 forward-looking statement was authorized or approved by an executive officer of
17 OSI who knew that the statement was false when made.

18 **FIRST CLAIM**
19 **Violation of Section 10(b) of The Exchange Act and**
20 **Rule 10b-5 Promulgated Thereunder**
21 **Against All Defendants**

22 47. Plaintiff repeats and re-alleges each and every allegation contained
23 above as if fully set forth herein.

24 48. During the Class Period, Defendants carried out a plan, scheme and
25 course of conduct which was intended to and, throughout the Class Period, did: (i)
26 deceive the investing public, including Plaintiff and other Class members, as alleged
27 herein; and (ii) cause Plaintiff and other members of the Class to purchase OSI’s
28 securities at artificially inflated prices. In furtherance of this unlawful scheme, plan
and course of conduct, Defendants, and each defendant, took the actions set forth

1 herein.

2 49. Defendants (i) employed devices, schemes, and artifices to defraud; (ii)
3 made untrue statements of material fact and/or omitted to state material facts
4 necessary to make the statements not misleading; and (iii) engaged in acts, practices,
5 and a course of business which operated as a fraud and deceit upon the purchasers of
6 the Company's securities in an effort to maintain artificially high market prices for
7 OSI's securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5.
8 All Defendants are sued either as primary participants in the wrongful and illegal
9 conduct charged herein or as controlling persons as alleged below.

10 50. Defendants, individually and in concert, directly and indirectly, by the
11 use, means or instrumentalities of interstate commerce and/or of the mails, engaged
12 and participated in a continuous course of conduct to conceal adverse material
13 information about OSI's financial well-being and prospects, as specified herein.

14 51. Defendants employed devices, schemes and artifices to defraud, while
15 in possession of material adverse non-public information and engaged in acts,
16 practices, and a course of conduct as alleged herein in an effort to assure investors of
17 OSI's value and performance and continued substantial growth, which included the
18 making of, or the participation in the making of, untrue statements of material facts
19 and/or omitting to state material facts necessary in order to make the statements
20 made about OSI and its business operations and future prospects in light of the
21 circumstances under which they were made, not misleading, as set forth more
22 particularly herein, and engaged in transactions, practices and a course of business
23 which operated as a fraud and deceit upon the purchasers of the Company's
24 securities during the Class Period.

25 52. Each of the Individual Defendants' primary liability and controlling
26 person liability arises from the following facts: (i) the Individual Defendants were
27 high-level executives and/or directors at the Company during the Class Period and
28 members of the Company's management team or had control thereof; (ii) each of

1 these defendants, by virtue of their responsibilities and activities as a senior officer
2 and/or director of the Company, was privy to and participated in the creation,
3 development and reporting of the Company's internal budgets, plans, projections
4 and/or reports; (iii) each of these defendants enjoyed significant personal contact
5 and familiarity with the other defendants and was advised of, and had access to,
6 other members of the Company's management team, internal reports and other data
7 and information about the Company's finances, operations, and sales at all relevant
8 times; and (iv) each of these defendants was aware of the Company's dissemination
9 of information to the investing public which they knew and/or recklessly
10 disregarded was materially false and misleading.

11 53. Defendants had actual knowledge of the misrepresentations and/or
12 omissions of material facts set forth herein, or acted with reckless disregard for the
13 truth in that they failed to ascertain and to disclose such facts, even though such
14 facts were available to them. Such defendants' material misrepresentations and/or
15 omissions were done knowingly or recklessly and for the purpose and effect of
16 concealing OSI's financial well-being and prospects from the investing public and
17 supporting the artificially inflated price of its securities. As demonstrated by
18 Defendants' overstatements and/or misstatements of the Company's business,
19 operations, financial well-being, and prospects throughout the Class Period,
20 Defendants, if they did not have actual knowledge of the misrepresentations and/or
21 omissions alleged, were reckless in failing to obtain such knowledge by deliberately
22 refraining from taking those steps necessary to discover whether those statements
23 were false or misleading.

24 54. As a result of the dissemination of the materially false and/or
25 misleading information and/or failure to disclose material facts, as set forth above,
26 the market price of OSI's securities was artificially inflated during the Class Period.
27 In ignorance of the fact that market prices of the Company's securities were
28 artificially inflated, and relying directly or indirectly on the false and misleading

1 statements made by Defendants, or upon the integrity of the market in which the
2 securities trades, and/or in the absence of material adverse information that was
3 known to or recklessly disregarded by Defendants, but not disclosed in public
4 statements by Defendants during the Class Period, Plaintiff and the other members
5 of the Class acquired OSI's securities during the Class Period at artificially high
6 prices and were damaged thereby.

7 55. At the time of said misrepresentations and/or omissions, Plaintiff and
8 other members of the Class were ignorant of their falsity, and believed them to be
9 true. Had Plaintiff and the other members of the Class and the marketplace known
10 the truth regarding the problems that OSI was experiencing, which were not
11 disclosed by Defendants, Plaintiff and other members of the Class would not have
12 purchased or otherwise acquired their OSI securities, or, if they had acquired such
13 securities during the Class Period, they would not have done so at the artificially
14 inflated prices which they paid.

15 56. By virtue of the foregoing, Defendants violated Section 10(b) of the
16 Exchange Act and Rule 10b-5 promulgated thereunder.

17 57. As a direct and proximate result of Defendants' wrongful conduct,
18 Plaintiff and the other members of the Class suffered damages in connection with
19 their respective purchases and sales of the Company's securities during the Class
20 Period.

21 **SECOND CLAIM**
22 **Violation of Section 20(a) of The Exchange Act**
23 **Against the Individual Defendants**

24 58. Plaintiff repeats and re-alleges each and every allegation contained
25 above as if fully set forth herein.

26 59. Individual Defendants acted as controlling persons of OSI within the
27 meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their
28 high-level positions and their ownership and contractual rights, participation in,
and/or awareness of the Company's operations and intimate knowledge of the false

1 financial statements filed by the Company with the SEC and disseminated to the
2 investing public, Individual Defendants had the power to influence and control and
3 did influence and control, directly or indirectly, the decision-making of the
4 Company, including the content and dissemination of the various statements which
5 Plaintiff contends are false and misleading. Individual Defendants were provided
6 with or had unlimited access to copies of the Company's reports, press releases,
7 public filings, and other statements alleged by Plaintiff to be misleading prior to
8 and/or shortly after these statements were issued and had the ability to prevent the
9 issuance of the statements or cause the statements to be corrected.

10 60. In particular, Individual Defendants had direct and supervisory
11 involvement in the day-to-day operations of the Company and, therefore, had the
12 power to control or influence the particular transactions giving rise to the securities
13 violations as alleged herein, and exercised the same.

14 61. As set forth above, OSI and Individual Defendants each violated
15 Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this
16 Complaint. By virtue of their position as controlling persons, Individual Defendants
17 are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate
18 result of Defendants' wrongful conduct, Plaintiff and other members of the Class
19 suffered damages in connection with their purchases of the Company's securities
20 during the Class Period.

21 **PRAYER FOR RELIEF**

22 WHEREFORE, Plaintiff prays for relief and judgment, as follows:

23 (a) Determining that this action is a proper class action under Rule 23 of
24 the Federal Rules of Civil Procedure;

25 (b) Awarding compensatory damages in favor of Plaintiff and the other
26 Class members against all defendants, jointly and severally, for all damages
27 sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial,
28 including interest thereon;

1 (c) Awarding Plaintiff and the Class their reasonable costs and expenses
2 incurred in this action, including counsel fees and expert fees; and

3 (d) Such other and further relief as the Court may deem just and proper.

4 **JURY TRIAL DEMANDED**

5 Plaintiff hereby demands a trial by jury.

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7 Dated: December 7, 2017

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