OSI SYSTEMS INC
Form DEFR14A
February 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. 1)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240.14a-12

OSI Systems, Inc.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

(4) Date Filed:

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EXPLANATORY NOTE

On January 5, 2010, OSI Systems, Inc. (the Company) filed with the Securities and Exchange Commission a definitive proxy statement (the Proxy Statement) relating to the Company s Annual Meeting of Shareholders (the Annual Meeting). After filing the Proxy Statement, but prior to mailing the Proxy Statement to our shareholders, the Board of Directors of the Company (the Board) resolved to amend the record date for the Annual Meeting and the meeting date for the Annual Meeting. The new record date for the Annual Meeting is February 5, 2010 and the new date/time for the Annual Meeting is March 5, 2010 at 10 a.m., local time.

The Board initially established the record date as December 22, 2009 and the meeting date as February 19, 2010. However, after December 22, 2009, the Company experienced a significant increase in the volume of trading in Company shares. Due to this increase in trading volume, certain holders of Company shares who purchased shares after December 22, 2009 would not have been deemed record holders at the Annual Meeting with regard to such shares and, accordingly, would not have had the right to vote such shares at the Annual Meeting. Conversely, certain record owners of Company shares as of December 22, 2009 who sold shares after December 22, 2009 would have, nevertheless, had the right to vote such shares at the Annual Meeting. Desiring to allow beneficial owners of Company shares bought after December 22, 2009 to vote such shares at the Annual Meeting and recognizing the potential for empty voting , the Board resolved to reset the record date for the Annual Meeting to February 5, 2010 and reschedule the Annual Meeting to 10 a.m., local time, on March 5, 2010.

The Company is hereby amending and restating the Proxy Statement to reflect the new meeting date/time and record date, and corresponding updates to the number of shares outstanding on the record date as well as to the deadlines for submission of shareholder proposals and director nominees for next year s annual meeting. There are no other changes to the information contained in the Proxy Statement. The proposals contained in this amended and restated Proxy Statement remain the same as those set forth in the original Proxy Statement. The Company intends to mail this amended and restated Proxy Statement on or about February 8, 2010 to our shareholders of record as of the close of business on February 5, 2010.

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12525 Chadron Avenue

Hawthorne, California 90250

February 5, 2010

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of OSI Systems, Inc., which will be held at 10:00 a.m., local time, on March 5, 2010, at the Company s principal offices at 12525 Chadron Avenue, Hawthorne, California. All holders of OSI Systems, Inc. common stock as of the close of business on February 5, 2010 are entitled to vote at the Annual Meeting. Enclosed is a copy of the Notice of Annual Meeting of Shareholders, Proxy Statement and Proxy Card.

The expected actions to be taken at the Annual Meeting are described in the enclosed Notice of Annual Meeting of Shareholders and Proxy Statement. We have also included a copy of our Annual Report on Form 10-K for the fiscal year ended June 30, 2009, which I encourage you to read. It includes our financial statements and information about our operations, markets and products.

Your vote is very important. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. Your vote will ensure your representation at the Annual Meeting if you cannot attend in person.

You may vote by sending in your Proxy Card or, if indicated on your Proxy Card, by telephone or Internet voting.

All shareholders may also choose to vote in person at the meeting.

Thank you for your ongoing support and continued interest in OSI Systems, Inc.

Sincerely,

Victor S. Sze
Secretary

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12525 Chadron Avenue

Hawthorne, California 90250

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held March 5, 2010

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders (the Annual Meeting) of OSI Systems, Inc., a California corporation (the Company), will be held at 10:00 a.m., local time, on March 5, 2010, at the Company s principal offices, 12525 Chadron Avenue, Hawthorne, California, 90250, for the following purposes:

1. To elect six directors to hold office for a one-year term and until their respective successors are elected and qualified;

2. To ratify the appointment of Moss Adams LLP as the Company s independent registered public accounting firm for the fiscal year ending June 30, 2010;

3. To approve the reincorporation of the Company from California to Delaware; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournment thereof.

A copy of the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2009, containing consolidated financial statements, is included with this Proxy Statement.

The Board of Directors has fixed the close of business on February 5, 2010, as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting and all adjourned meetings thereof.

By Order of the Board of Directors
Victor S. Sze

Secretary

Dated: February 5, 2010

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE VOTE PROMPTLY.

PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY CARD AND MAIL IT IN THE ENCLOSED ENVELOPE OR, IF GIVEN THE OPTION, YOU MAY ALSO VOTE BY TELEPHONE OR INTERNET VOTING.

ANY OF THESE METHODS WILL ENSURE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING. IF YOU LATER DESIRE TO REVOKE YOUR PROXY FOR ANY REASON, YOU MAY DO SO IN THE MANNER DESCRIBED IN THE ATTACHED PROXY STATEMENT.

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OSI SYSTEMS, INC.

12525 Chadron Avenue

Hawthorne, California 90250

PROXY STATEMENT

GENERAL INFORMATION

This Proxy Statement is being furnished in connection with the solicitation of proxies by the Board of Directors of OSI Systems, Inc. (the Company) for use at its Annual Meeting of Shareholders (the Annual Meeting or the Meeting), to be held at 10:00 a.m., local time, on March 5, 2010, at the Company s principal offices at 12525 Chadron Avenue, Hawthorne, California 90250, and at any adjournment thereof.

The Company is making its proxy materials, which include the Notice of Annual Meeting of Shareholders, Proxy Statement, Proxy Card and its most recent Annual Report on Form 10-K (Proxy Materials), available to all shareholders of record on February 5, 2010.

In order to direct your vote without attending the Annual Meeting you must complete and mail the Proxy Card or voting instruction card enclosed, postage pre-paid envelope or, if indicated on the Proxy Card that you receive, by telephone or Internet voting. Please refer to the Proxy Card for instructions.

When a proxy is properly submitted, the shares it represents will be voted in accordance with any directions noted thereon. Any shareholder giving a proxy has the power to revoke it at any time before it is voted by written notice to the Secretary of the Company, by issuance of a subsequent proxy as more fully described on your Proxy Card. In addition, a shareholder attending the Annual Meeting may revoke his or her proxy and vote in person if he or she desires to do so, but attendance at the Annual Meeting will not of itself revoke the proxy.

At the close of business on February 5, 2010, the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting, the Company had issued and outstanding 17,916,174 shares of common stock, without par value (Common Stock). A majority of the shares outstanding on the record date, present in person at the Meeting or represented at the Meeting by proxy, will constitute a quorum for the transaction of business. Shares that are voted FOR, AGAINST, ABSTAIN or WITHHELD for a proposal are treated as being present at the Meeting for purposes of establishing a quorum. Each share of Common Stock entitles the holder of record thereof to one vote on any matter coming before the Annual Meeting. In voting for directors, however, if any shareholder gives notice at the Annual Meeting prior to voting of an intention to cumulate votes, then each shareholder has the right to cumulate votes and to give any one or to allocate among any of the nominees whose names have been placed in nomination prior to voting a number of votes equal to the number of directors to be elected (*i.e.*, six) multiplied by the number of shares which the shareholder is entitled to vote. Unless the proxy holders are otherwise instructed, shareholders, by means of the accompanying proxy, will grant the proxy holders discretionary authority to cumulate votes.

A Proxy Card, when properly submitted by Internet, telephone or mail, also confers discretionary authority with respect to amendments or variations to the matters identified in the Notice of Annual Meeting of Shareholders and with respect to other matters which may be properly brought before the Annual Meeting. At the time of printing this Proxy Statement, management was not aware of any other matters to be presented for action at the Annual Meeting. If, however, other matters which are not now known to management should properly come before the Annual Meeting, the proxies hereby solicited will be exercised on such matters in accordance with the best judgment of the proxy holders.

Abstentions and broker non-votes represented by submitted proxies will be included in the calculation of the number of the shares present at the Meeting for the purposes of determining a quorum. Broker non-votes

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means shares held of record by a broker that are not voted because the broker has not received voting instructions from the beneficial owner of the shares and either lacks or declines to exercise the authority to vote the shares in its discretion.

Proposal One. Directors are elected by a plurality and the nominees who receive the most votes will be elected. Beginning with shareholder meetings held on or after January 1, 2010, Proposal One will be considered a non routine matter under NASDAQ Stock Market (NASDAQ) rules and, accordingly, brokerage firms and nominees will not have the authority to vote their customers unvoted shares on Proposal One or to vote their customers shares if the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting. Abstentions and broker non-votes will decrease the number of votes cast in director elections.

Proposal Two. To be approved, the ratification of Moss Adams LLP, as the Company s independent registered accounting firm must receive the affirmative vote of the majority of the shares of Common Stock present in person or by proxy at the Annual Meeting and entitled to vote. Proposal Two is considered a routine matter under NASDAQ rules and, accordingly, brokerage firms and nominees have the authority to vote their customers unvoted shares on Proposal Two as well as to vote their customers shares where the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting. Abstentions and broker non-votes will not affect the outcome of the vote on Proposal Two.

Proposal Three. To be approved, the re-incorporation of the Company from the State of California to the State of Delaware must receive the affirmative vote of the majority of the outstanding shares of Common Stock. Proposal Three is considered a non routine matter under NASDAQ rules and, accordingly, brokerage firms and nominees do not have the authority to vote their customers unvoted shares on Proposal Three or to vote the customers shares if the customers have not furnished voting instructions within a specified period of time prior to the Annual Meeting. Abstentions and broker non-votes will have the same effect as a vote against Proposal Three.

It is anticipated that the Proxy Materials will be mailed on or about February 8, 2010. The Company will pay the expenses of soliciting proxies for the Annual Meeting, including the cost of preparing, assembling and mailing the Proxy Materials. Proxies may be solicited personally, by mail, by e-mail, over the Internet, or by telephone, by directors, officers and regular employees of the Company who will not be additionally compensated therefore. We have also engaged MacKenzie Partners, Inc., to assist in our solicitation efforts and provide related advice and informational support. The total of all fees for such services, including for the reimbursement of expenses, is not expected to exceed $40,000 in the aggregate.

The matters to be considered and acted upon at the Annual Meeting are referred to in the preceding notice and are more fully discussed below.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting to be held on March 5, 2010: This Proxy Statement and the Company s most recent Annual Report on Form 10-K are available at http://investors.osi-systems.com

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ELECTION OF DIRECTORS

(Proposal No. 1 of the Proxy Card)

Nominees

The Board of Directors consists of six members. At each annual meeting of shareholders, directors are elected for a term of one year to succeed those directors whose terms expire on the annual meeting date.

The six candidates nominated for election as directors at the Annual Meeting are Deepak Chopra, Ajay Mehra, Steven C. Good, Meyer Luskin, Leslie E. Bider and David T. Feinberg. The enclosed Proxy will be voted in favor of these individuals unless other instructions are given. If elected, the nominees will serve as directors until the Company s Annual Meeting of Shareholders in 2010, and until their successors are elected and qualified. If any nominee declines to serve or becomes unavailable for any reason, or if a vacancy occurs before the election (although the Company knows of no reason to anticipate that this will occur), the proxies may be voted for such substitute nominees as the Board of Directors may designate.

If a quorum is present and voting, the six nominees for directors receiving the highest number of votes will be elected as directors. Abstentions and shares held by brokers that are present, but not voted because the brokers were prohibited from exercising discretionary authority, *i.e.*, broker non-votes, will be counted as present only for purposes of determining if a quorum is present.

The nominees for election as directors at this meeting are as follows:

Name	Age	Position	Director Since
Deepak Chopra	59	Chairman of the Board of Directors, Chief Executive Officer and President	1987
Ajay Mehra	47	Director, Executive Vice President, and President of Security division	1996
Steven C. Good(1)(2)(3)(4)	67	Director	1987
Meyer Luskin(1)(2)(3)(4)	84	Director	1990
Leslie E. Bider(1)(3)	59	Director	2006
David T. Feinberg	47	Director	

(1) Member of Audit Committee
(2) Member of Compensation Committee
(3) Member of Nominating and Governance Committee
(4) Member of Executive Committee

Business Experience

Deepak Chopra is President and Chief Executive Officer of the Company. He also serves as Chairman of the Board of Directors. Mr. Chopra is the founder of the Company and has served as President, Chief Executive Officer and a Director since the Company s inception in May 1987. He has served as the Company s Chairman of the Board of Directors since February 1992. Mr. Chopra also serves as the President and Chief Executive Officer of several of the Company s major subsidiaries. From 1976 to 1979 and from 1980 to 1987, Mr. Chopra held various positions with ILC, a publicly-held manufacturer of lighting products, including serving as Chairman of the Board of Directors, Chief Executive Officer, President and Chief Operating Officer of its United Detector Technology division. In 1990, the Company acquired certain assets of ILC s United Detector Technology division. Mr. Chopra has also held various positions with Intel Corporation, TRW Semiconductors and RCA Semiconductors. Mr. Chopra holds a Bachelor of Science degree in Electronics and a Master of Science degree in Semiconductor Electronics from Punjab Engineering College in Chandigarh, Punjab, India and a Master of Science degree in Semiconductor Electronics from the University of Massachusetts, Amherst.

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Ajay Mehra is Executive Vice President of the Company and President of the Company s Security division. Mr. Mehra is also a member of the Company s Board of Directors. Mr. Mehra joined the Company as Controller in 1989 and served as Vice President and Chief Financial Officer from November 1992 until November 2002, when he was named the Company s Executive Vice President. Mr. Mehra became a Director in March 1996. Prior to joining the Company, Mr. Mehra held various financial positions with Thermador/Waste King, a household appliance company, Presto Food Products, Inc. and United Detector Technology. Mr. Mehra holds a Bachelor of Arts degree from the School of Business of the University of Massachusetts, Amherst and a Master of Business Administration degree from Pepperdine University.

Steven C. Good has served as a Director of the Company since September 1987. He is a Senior Partner in the accounting firm of Good, Swartz, Brown & Berns, a division of JH Cohn LLP. He founded Good, Swartz, Brown & Berns in 1976, and has been active in consulting and advisory services for businesses in various sectors, including the manufacturing, garment, medical services and real estate development industries. Mr. Good founded California United Bancorp and served as its Chairman through 1993. From 1997 until the company was sold in 2006, Mr. Good served as a Director of Arden Realty Group, Inc., a publicly-held Real Estate Investment Trust listed on the New York Stock Exchange. Mr. Good currently serves as a Director of Kayne Anderson MLP Investment Company and Kayne Anderson Energy Total Return Fund, Inc., each of which is listed on the New York Stock Exchange. He also formerly served as a Director of California Pizza Kitchen, Inc. from 2005 to 2008, Youbet.com from 2006 to 2008, and the Walking Company Holdings, Inc. from 1997 to 2009. Mr. Good holds a Bachelor of Science degree in Business Administration from the University of California, Los Angeles and attended its Graduate School of Business.

Meyer Luskin has served as a Director of the Company since February 1990. Since 1958, Mr. Luskin has served as a Director of Scope Industries, which is engaged principally in the business of recycling and processing food waste products into animal feed and has also served as its President, Chief Executive Officer and Chairman since 1961. Mr. Luskin currently also serves as a Director of Myricom, Inc., a computer and network infrastructure company, and as a Director of the Board of Advisors of the Santa Monica UCLA Medical Center and Orthopedic Hospital. Mr. Luskin also serves as a trustee of the Orthopedic Hospital. Mr. Luskin holds a Bachelor of Arts degree from the University of California, Los Angeles and a Masters in Business Administration from Stanford University.

Leslie E. Bider has served as a Director of the Company since September 2006. Mr. Bider is currently Chief Executive Officer of Pinnacle Care, Inc. a Health Advisory Company. Between 2007 and 2008, Mr. Bider served as Chief Strategist of ITU Ventures, a venture capital firm, and between 1987 and 2005, Mr. Bider served as Chairman and Chief Executive Officer of Warner Chappell Music, Inc. Prior to that, Mr. Bider was Chief Financial Officer and Chief Operating Officer of Warner Bros. Music. Mr. Bider currently serves on the board of directors of Douglas Emmett, Inc., a real estate investment trust that trades on the New York Stock Exchange and California Pizza Kitchens, Inc., which trades on the NASDAQ. He also serves on the board of directors of several charitable and educational institutions. He holds a Bachelors of Science degree in Accounting from the University of Southern California and a Masters degree from the Wharton School at the University of Pennsylvania.

David T. Feinberg has served as the chief executive officer of the UCLA Hospital System and associate vice chancellor since July 2007. Prior to assuming this position, Dr. Feinberg was the medical director of the Resnick Neuropsychiatric Hospital (NPH) at UCLA. Dr. Feinberg is board certified in the specialties of child and adolescent psychiatry, adult psychiatry and addiction psychiatry. He is a professor of clinical psychiatry in the David Geffen School of Medicine at UCLA. Dr. Feinberg graduated *cum laude* in economics from the University of California, Berkeley in 1984, and graduated with distinction from the University of Health Sciences/The Chicago Medical School in 1989. He earned his master of business administration from Pepperdine University in 2002.

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Retirement from the Board of Directors

Chand R. Viswanathan, who has served as a Director of the Company since 2001, notified the Company on December 21, 2009, that he would retire as a Director, effective upon the date of the Annual Meeting of Shareholders and the election of a successor Director.

Relationships Among Directors or Executive Officers

There are no arrangements or understandings known to the Company between any of the directors or nominees for director of the Company and any other person pursuant to which any such person was or is to be elected a director.

Ajay Mehra is the first cousin of Deepak Chopra. Other than this relationship, there are no family relationships among the directors or Named Executive Officers of the Company (for a list of Named Executive Officers, See Compensation of Executive Officers and Directors Summary Compensation Table).

Board of Directors Meetings and Committees of the Board of Directors

There were six meetings of the Board of Directors and the Board of Directors acted pursuant to unanimous written consent on one additional occasion during the fiscal year ended June 30, 2009. The Board of Directors has established an Audit Committee, Compensation Committee, Executive Committee and Nominating and Governance Committee. The members of each committee are appointed by the majority vote of the Board of Directors. All persons serving as a director during the fiscal year ended June 30, 2009, attended more than 75% of the aggregate number of meetings held by the Board of Directors and all committees on which such director served, except Mr. Bider who attended 73% of the aggregate number of meetings held by the Board of Directors and all committees on which he served.

The Board of Directors has determined that each of the directors, except Deepak Chopra and Ajay Mehra, is independent within the meaning of the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and NASDAQ director independence standards (Listing Standards), as currently in effect. Furthermore, the Board of Directors has determined that each of the members of each of the committees of the Board of Directors is independent within the meaning of the rules and regulations of the SEC and the NASDAQ Listing Standards, as currently in effect.

Audit Committee

The Company has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee makes recommendations for selection of the Company s independent public accountants, reviews with the independent public accountants the plans and results of the audit engagement, approves professional services provided by the independent public accountants, reviews the independence of the independent public accountants, considers the range of audit and any non-audit fees, and reviews the financial statements of the Company and the adequacy of the Company s internal accounting controls and financial management practices. All members of the Audit Committee are independent, as independence for

audit committee members is defined in the listing standards applicable to the Company

The Audit Committee currently consists of Messrs. Good, Luskin and Bider. The Board of Directors has determined that, based upon his work experience, Mr. Good qualifies as an Audit Committee Financial Expert as this term has been defined under the rules and regulations of the SEC. To date, no determination has been made as to whether the other members of the Audit Committee also qualify as Audit Committee Financial Experts.

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There were four meetings of the Audit Committee during the fiscal year ended June 30, 2009. See Report of Audit Committee. The charter of the Audit Committee is available under the Investor Relations section of our website *http://www.osi-systems.com*.

Compensation Committee

The Compensation Committee is responsible for determining compensation for the Company s executive officers, reviewing and approving executive compensation policies and practices, and providing advice and input to the Board of Directors in the administration of the Company s equity compensation plans. The Compensation Committee engages and consults with independent compensation consultants in the performance of its duties. The Compensation Committee currently consists of Messrs. Luskin and Good. There were eleven meetings of the Compensation Committee during the fiscal year ended June 30, 2009. See *Compensation Committee Report.*

The Compensation Committee acts pursuant to a written charter adopted by the Board of Directors, a copy of which is available under the Investor Relations section of the Company s website *http://www.osi-systems.com.*

Nominating and Governance Committee

The Nominating and Governance Committee is responsible for evaluating nominations for new members of the Board of Directors. The Nominating and Governance Committee currently consists of Messrs. Bider, Good and Luskin. There was one meeting of the Nominating and Governance Committee during the fiscal year ended June 30, 2009.

The Nominating and Governance Committee will consider candidates based upon their business and financial experience, personal characteristics, expertise that is complementary to the background and experience of other Board of Directors members, willingness to devote the required amount of time to carrying out the duties and responsibilities of membership on the Board of Directors, willingness to objectively appraise management performance, and any such other qualifications the Nominating and Governance Committee deems necessary to ascertain the candidate s ability to serve on the Board of Directors.

The Nominating and Governance Committee acts pursuant to a written charter adopted by the Board of Directors. The charter of the Nominating and Governance Committee is available under the Investor Relations section of the Company s website *http://www.osi-systems.com*.

Executive Committee

The Executive Committee convenes for the purpose of advising and consulting with the Company s management regarding potential acquisitions, mergers and strategic alliances. The Executive Committee consists of Messrs. Good and Luskin. There were seven meetings of the Executive Committee during the fiscal year ended June 30, 2009.

The Executive Committee acts pursuant to a written charter adopted by the Board of Directors, a copy of which is available under the Investor Relations section of the Company s website *http://www.osi-systems.com*.

Director Nomination Process

The Nominating and Governance Committee will consider director candidates recommended by shareholders. Shareholders who wish to submit names of candidates for election to the Board of Directors must do so in writing. The recommendation should be sent to the following address: c/o Secretary, OSI Systems, Inc., 12525 Chadron Avenue, Hawthorne, CA 90250. The Company s Secretary will, in turn, forward the recommendation to the Nominating and Governance Committee. The recommendation should include the following information:

A statement that the writer is a shareholder and is proposing a candidate for consideration by the Nominating and Governance Committee;

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The name and contact information for the candidate;

A statement of the candidate s occupation and background, including education and business experience;

Information regarding each of the factors listed above, sufficient to enable the committee to evaluate the candidate;

A statement detailing (1) any relationship or understanding between the candidate and the Company, or any customer, supplier, competitor, or affiliate of the Company, and (2) any relationship or understanding between the candidate and the shareholder proposing the candidate for consideration, or any affiliate of such shareholder; and

A statement that the candidate is willing to be considered for nomination by the committee and willing to serve as a director if nominated and elected.

Shareholders must also comply with all requirements of the Company s Bylaws, a copy of which is available from our Secretary upon written request, with respect to nomination of persons for election to the Board of Directors. The Company may also require any proposed nominee to furnish such other information as the Company or the committee may reasonably require to determine the eligibility of the nominee to serve as a director. In performing its evaluation and review, the committee generally does not differentiate between candidates proposed by shareholders and other proposed nominees, except that the committee may consider, as one of the factors in its evaluation of shareholder recommended candidates, the size and duration of the interest of the recommending shareholder or shareholder group in the equity of the Company.

There are no shareholder nominations for election to our Board to be voted on at this year s Annual Meeting. The Nominating and Governance Committee has retained Korn/Ferry International to assist it in identifying potential future director nominees. All of this year s nominees for director, other than Dr. Feinberg, are all currently directors of the Company. Shareholders wishing to submit nominations for next year s annual meeting of shareholders must notify the Company of their intent to do so on or before the date on which nominations must be received by the Company in accordance with its Bylaws and the rules and regulations of the SEC. For details see Shareholder Proposals.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is composed of two non-employee directors, Messrs. Luskin and Good. No executive officer of the Company has served during the fiscal year ended June 30, 2009 or subsequently as a member of the board of directors or compensation committee of any entity which has one or more executive officers who serve on the Company s Board of Directors or the Compensation Committee. During the fiscal year ended June 30, 2009, no member of the Company s Compensation Committee had any relationship or transaction with the Company required to be disclosed pursuant to Item 404 of Regulation S-K under the Exchange Act.

The Board of Directors unanimously recommends that you vote FOR the election of each of Deepak Chopra, Ajay Mehra, Steven C. Good, Meyer Luskin, Leslie E. Bider and David T. Feinberg as directors of the Company. Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the Proxy or, if no direction is made, for each of the above-named nominees. The election of directors requires a plurality of the votes cast by the holders of the Company s Common Stock present in person at the Meeting or represented by proxy, and entitled to vote on the subject matter of the proposal.

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RATIFICATION OF SELECTION OF

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Proposal No. 2 of the Proxy Card)

The Audit Committee of the Board of Directors has selected Moss Adams LLP (Moss Adams) as the Company s independent registered public accountants for the year ending June 30, 2010, and has further directed that management submit the selection of independent registered public accountants for ratification by the Company s shareholders at the Annual Meeting. Moss Adams has no financial interest in the Company and neither it nor any member or employee of the firm has had any connection with the Company in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

In the event that the Company s shareholders fail to ratify the selection of Moss Adams, the Audit Committee will reconsider whether or not to retain the firm. Even if the selection is ratified, the Audit Committee and the Board of Directors in their discretion may direct the appointment of a different independent accounting firm at any time during the year if they determine that such a change would be in the Company s and its shareholders best interests.

Representatives of Moss Adams are expected to be present at the Annual Meeting and they will have an opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

The Board of Directors unanimously recommends a vote FOR the ratification of Moss Adams as the Company s independent registered public accountants for the fiscal year ending June 30, 2010. Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the Proxy or, if no direction is made, in favor of this proposal. In order to be adopted, this proposal must be approved by the affirmative vote of the holders of a majority of the shares of Common Stock present and voting at the Meeting.

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APPROVAL OF REINCORPORATION FROM CALIFORNIA TO DELAWARE

(Proposal 3 of the Proxy Card)

Our Board of Directors (the Board) has undertaken a program of corporate governance enhancement. As a part of that program, the Board believes that it is in the best interests of our shareholders to change our state of incorporation from California to Delaware in a specific manner that, among other things: (a) provides shareholders with expanded rights against potential dilution; (b) enhances shareholder control over our company s Bylaws; (c) improves the ability for the majority of shareholders to exercise control of the company, and decreases the power of dissident minority shareholders to impede or frustrate the will of the majority; (d) enhances shareholder rights with respect to any prospective sale or merger of our company; and (e) provides shareholders access to the comparatively more established jurisprudence and the judicial expertise in Delaware. The Board considers the reincorporation in Delaware, under the terms specified, to be an important step in the enhancement of corporate governance and shareholder value.

Our Board reached this decision following a comprehensive review of corporate governance-related matters. As a result of the review, the Board concluded that changes in corporate governance, including changes to corporate structure, if properly designed and implemented, could significantly bolster on-going efforts by the Board and our management to generate sustainable, long-term value for shareholders.

Our Board believes, particularly in light of the on-going, worldwide economic crisis and the related re-examination of corporate risk tolerance, that continuing to ensure that we strive to seek sustainable, long-term value over pressures to pursue more short-lived returns, is one of its most important responsibilities to shareholders.

Following its review, the Board undertook several significant actions. Among them, it adopted the OSI Systems, Inc. Corporate Governance Guidelines, which are now available for public viewing on our Internet website *www.osi-systems.com*.

As part of its review, our Board also undertook an extensive review of the advantages and disadvantages of changing our corporate structure, including reincorporating from California to Delaware. As discussed in Principal Reasons for Reincorporation, the Board concluded that reincorporation in Delaware on the terms specified in this Proposal, would significantly enhance our overall corporate governance profile. We also believe that reincorporation in Delaware, on the terms specified in this Proposal, will improve the Company s Corporate Governance Quotient (CGQ) score, which is a measure of corporate governance structure and practices maintained by RiskMetrics Group, a leading proxy advisory firm.

Additionally, our Board believes that, as a Delaware corporation, our company would be better able to attract and retain qualified directors and officers than it can as a California corporation.

In this Proposal, we refer to the current OSI Systems, Inc., a California corporation, as OSI California and a new OSI Systems, Inc., a Delaware corporation, as OSI Delaware.

We urge shareholders to read carefully the following sections of this Proposal, including the related appendices, before voting on this Proposal.

Approval of this Proposal by a shareholder will constitute such shareholder s approval of each of the following: (i) the Agreement and Plan of Merger (the Merger Agreement) pursuant to which OSI California will be merged with and into OSI Delaware; (ii) the Certificate of Incorporation of OSI Delaware and (iii) the Bylaws of OSI Delaware, each in substantially the form attached hereto as Appendices A, B and C, respectively.

IN ORDER FOR THE PROPOSED REINCORPORATION TO PROCEED, A VOTE OF THE MAJORITY OF ALL OUTSTANDING SHARES OF OUR COMMON STOCK MUST APPROVE THIS PROPOSAL.

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Mechanics of Reincorporation

This discussion is qualified in its entirety by reference to the Merger Agreement, the Certificate of Incorporation of OSI Delaware and the Bylaws of OSI Delaware, copies of which are attached hereto as Appendices A, B and C, respectively.

OSI California s capital stock consists of 100,000,000 authorized shares of Common Stock, of which 17,673,749 shares were issued and outstanding as of December 17, 2009, and 10,000,000 authorized shares of preferred stock, without par value (Preferred Stock), none of which were outstanding as of December 17, 2009. On the effective date of the reincorporation, OSI Delaware would have the same number of outstanding shares of Common Stock that OSI California had outstanding immediately prior to the effective date of the reincorporation.

OSI Delaware s capital stock would consist of 100,000,000 authorized shares of Common Stock and 10,000,000 shares of Preferred Stock, which will be consistent with maintaining adequate capitalization for the current needs of our company. OSI Delaware s authorized but unissued shares of Common Stock and Preferred Stock would both be available for future issuance.

This Proposal would be effectuated by merging OSI California into OSI Delaware (the Merger). Upon completion of the Merger, OSI California would cease to exist and OSI Delaware would continue the business of our company under the name OSI Systems, Inc. Pursuant to the Merger Agreement, a form of which is attached hereto as Appendix A, upon the effective date of the Merger, (1) each outstanding share of OSI California Common Stock would automatically be converted into one share of OSI Delaware Common Stock and (2) each outstanding option to purchase OSI California Common Stock would automatically be assumed by OSI Delaware and would represent an option to acquire shares of OSI Delaware Common Stock on the basis of one share of OSI Delaware Common Stock for each one share of OSI California Common Stock and at an exercise price equal to the exercise price of the OSI California option. Each outstanding warrant to purchase OSI California Common Stock would similarly automatically be assumed and converted into a warrant to purchase shares of OSI Delaware Common Stock. Each certificate representing issued and outstanding shares of OSI California Common Stock would represent the same number of shares of Common Stock of OSI Delaware into which such shares are converted by virtue of the Merger.

IT WILL NOT BE NECESSARY FOR SHAREHOLDERS OF OSI CALIFORNIA TO EXCHANGE THEIR EXISTING SHARE CERTIFICATES FOR STOCK CERTIFICATES OF OSI DELAWARE. HOWEVER, SHAREHOLDERS MAY EXCHANGE THEIR CERTIFICATES IF THEY SO CHOOSE.

The Common Stock of OSI California is listed for trading on the Nasdaq under the ticker symbol OSIS. After the Merger, OSI Delaware s Common Stock would continue to be traded on Nasdaq without interruption, under the same symbol.

Under California law, the affirmative vote of the holders of a majority of the outstanding shares of our Common Stock is required for approval of the terms of this Proposal. This Proposal has been approved by OSI California s Board of Directors, which unanimously recommends a vote in favor of such proposal. If approved by the shareholders, it is anticipated that the reincorporation would become effective as soon as practicable. However, pursuant to the Merger Agreement, the Merger may be abandoned or the Merger Agreement may be amended (except that the principal terms may not be amended without shareholder approval) either before or after shareholder approval has been obtained and prior to the effective date if, in the opinion of the Board of Directors of either OSI California or OSI Delaware, circumstances arise which make it inadvisable to proceed.

Company

This Proposal would effect only a change in the legal domicile of OSI California and other changes of a legal nature, many of which are described in this Proposal. The reincorporation would not result in any change in the name, business, management, fiscal year, accounting, location of the principal executive offices, assets or

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liabilities of our company. The Directors of OSI California at the time of the Merger would continue as the Directors of OSI Delaware. All employee benefits and stock options of OSI California would be assumed and continued by OSI Delaware, and each option or right to purchase shares of OSI California Common Stock would automatically be converted into an option or right to purchase the same number of shares of OSI Delaware Common Stock at the same price per share, upon the same terms, and subject to the same conditions.

Shareholders should note that approval of this Proposal would also constitute approval of the assumption by OSI Delaware of OSI California s options and other rights to purchase OSI California capital stock. Shareholder approval of this Proposal would also constitute approval of the assumption by OSI Delaware of OSI California s 2006 Amended and Restated Equity Participation Plan and 2008 Employee Stock Purchase Plan. OSI California s other employee benefit arrangements would also be continued by OSI Delaware upon the terms and subject to the conditions in effect prior to the Merger. Prior to the effective date of the Merger, OSI California would seek to obtain any required consents to the Merger from parties with whom it may have material contractual arrangements. Assuming such consents are obtained, OSI California s rights and obligations under such material contractual arrangements would be assumed by OSI Delaware.

OSI California does not, and OSI Delaware therefore would not, have any collective bargaining agreements with employees or employ anyone that resides in Delaware. As a result, reincorporating in Delaware should have no effect on any labor contracts covering persons employed in Delaware.

Principal Reasons for Reincorporation

The State of Delaware has been a leader in adopting a comprehensive and coherent set of corporate laws that are responsive to the evolving legal and business needs of corporations organized under Delaware law. Our company s decision to reincorporate in the state of Delaware is due in large part to Delaware s history of comprehensiveness and flexibility of its corporate laws and its tradition of promoting progressive principles of corporate governance.

Enhanced Ability to Attract and Retain Directors

The current emphasis on issues of corporate governance brought about by the recent worldwide economic crisis has increased the overall demand for highly qualified independent directors. Because of its flexibility and familiarity to prospective directors, Delaware law provides, as noted above, a more favorable environment for directors to serve the bests interests of our company and its shareholders. According to a recent survey, a majority of U.S. publicly-traded companies are incorporated in Delaware. Additionally, the enhanced certainty regarding the indemnification of officers and directors and limitation of liability of directors under Delaware law enables corporations organized in Delaware to compete more effectively to seek out and retain qualified directors than their peer companies that are not organized in Delaware.

Enhanced Ability of the Majority of Shareholders to Exercise Control

The majority of shareholders of a Delaware corporation would have greater ability to exercise control because Delaware law does not require cumulative voting. Cumulative voting is often used when a minority shareholder (or shareholder group) is otherwise unable to persuade the majority to elect one or more nominees for the election of directors. Under cumulative voting, a shareholder may cast as many votes as shall equal the number of votes that such holder would be entitled to cast for the election of directors multiplied by the number of directors to be elected. The holder may cast all such votes for a single director or distribute the votes among two or more directors. Thus, minority shareholders

are often able to use cumulative voting to elect one or more directors to the corporation s board of directors. The Board believes that directors so elected by a minority shareholder who was unable or unwilling to persuade the majority of shareholders would then act to advance courses of action with respect to which the majority of shareholders was not persuaded. Oftentimes, such situations lead to impediment and frustration of the intentions of the majority of shareholders.

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Predictability, Flexibility and Responsiveness of Delaware Law

Delaware courts have, over many years, established a jurisprudence that is far more thorough and broadly applied on questions regarding the principles of corporate governance than any other state s courts. As a result, corporations that are organized under Delaware law are often at an advantage over their peers that are organized under the laws of other states in that Delaware corporations can draw upon these well-established and consistently interpreted principles when making business and legal decisions. Consequently, Delaware is the preferred state of incorporation for most publicly traded companies in the U.S.

Additionally, because so many companies are incorporated in Delaware, Delaware courts are often the first in the country to issue rulings on rights and obligations in important new issues relating to corporate governance. Because Delaware courts were among the first and most influential to address these issues, many California corporations have looked to Delaware law for guidance on these issues. We believe that the clarity provided on these issues is ultimately beneficial to both our company and our shareholders because it provides a more reliable foundation upon which corporate governance decisions can be made.

Delaware s court system also provides swift and efficient resolutions in corporate litigation. Delaware has a specialized Court of Chancery that hears corporate law cases. Furthermore, appeals to the Supreme Court of Delaware in important corporate cases can be made and decided very quickly. The fact that issues of corporate governance are frequently addressed first in Delaware contribute to an efficient and expert court system and bar. In contrast, disputes regarding California corporate law are heard by the Superior Court, the general trial court in California that hears all types of cases, from criminal to civil, which has been known in the past experience lengthy delays in resolving cases, and to produce outcomes that are inconsistent from court to court. The highly specialized nature of the Delaware court system is therefore widely believed to result in more consistent and timely rulings.

Our Board of Directors has therefore identified the following overall benefits of Delaware s corporate legal framework in reaching its decision to propose reincorporating in Delaware:

- The Delaware General Corporate Law (DGCL) is generally acknowledged to be the most advanced and flexible state corporate statute in the United States;
- The Delaware General Assembly each year considers and adopts statutory amendments, many proposed by the Corporation Law Section of the Delaware State Bar, in an effort to ensure that the Delaware corporate statute continues to be responsive to the changing needs of businesses;
- The Delaware Court of Chancery routinely handles cases involving complex corporate issues with a level of experience and a degree of sophistication and understanding unmatched by any other court in the country;
- The Delaware Supreme Court is also well regarded and is timely and highly responsive in cases involving complex corporate issues; and
- The well-established body of case law construing Delaware law has developed over the last century and provides businesses with a greater predictability than the case law in most, if not all, other jurisdictions.

Treatment of Sales and Mergers

In this Proposal to reincorporate in Delaware, the Board has sought to achieve parity of statutory treatment of any prospective sales and mergers of our company whether under OSI California or OSI Delaware. Therefore, the Board has chosen to opt out of Delaware s freeze-out statute. Moreover, as a part of this Proposal, above and beyond statutory parity, upon effectiveness of the Merger, our current Shareholder Rights Plan would expire. The Board also recognizes that Delaware law would provide shareholders with enhanced rights of appraisal in the event of any sale or merger. These points are discussed in more detail below.

Delaware Law. Under Delaware law, a corporation may adopt certain measures to mitigate its vulnerability to unsolicited takeover attempts through amendment of the corporate charter documents, adoption

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of shareholder rights plans or otherwise. Moreover, DGCL 203 imposes certain restrictions on parties attempting to seize control of Delaware corporations. Unsolicited takeovers can involve attempts to seize control without acquiring all outstanding shares, and without paying a fair value to the shareholders of a company.

However, in light of prevailing commentary on this subject, and considering the position taken by leading proxy advisory firms, the Board has elected in this Proposal to opt-out of DGCL 203. Moreover, upon effectiveness of the Merger, our current Shareholder Rights Plan would expire.

In the discharge of its fiduciary duty to the shareholders, our Board may consider, at some point in the future, implementing certain defensive strategies allowed under Delaware law that are designed to enhance the Board s ability to negotiate with an unsolicited bidder; such defensive strategies and negotiations may result in the offer of a price-per-share premium above the then-current trading price of our company s stock that may not be available to shareholders in the absence of such defensive strategies and negotiations. Such strategies could include, but are not limited to, the adoption of a new shareholder rights plan that would become effective upon certain pre-determined circumstances. With respect to implementing such defensive strategies, our Board believes that Delaware law is preferable to California law because of the substantial judicial precedent that exists in Delaware regarding the legal principles that govern the implementation and use of such defensive strategies. As either a California corporation or a Delaware corporation, our company could implement some of these same defensive measures, but as a Delaware corporation, our Board and our shareholders would benefit from the greater guidance and predictability in such matters afforded by Delaware law, as well as the greater number of precedents of Delaware corporations using such strategies to increase the amounts of any offers that may be made for control or ownership of our company.

Shareholder Rights Agreement. Since July 31, 2000, our company has maintained with its stock transfer agent a shareholder rights plan, in the form of a Shareholder Rights Agreement, as amended (Rights Agreement). The Rights Agreement expires on January 30, 2018. If this Proposal is approved by shareholders, the Bylaws of OSI Delaware would include a provision that would restrict the adoption of such shareholders rights agreements unless such agreements met certain criteria, more fully described below under Termination of Shareholder Rights Plan . In conjunction with the adoption of OSI Delaware s bylaws, upon the effectiveness of the Merger, the Rights Agreement would be terminated. The termination of the Rights Agreement would be effectuated by the adoption of an amendment accelerating the expiration of the Rights Agreement.

Section 203 of the DGCL. The Board also recognizes that certain aspects of Delaware law could be considered to have anti-takeover implications that could be construed as unfavorable to shareholder interests. The most significant of these provisions is Section 203, which restricts certain business combinations with interested stockholders (generally, a person who acquires 15% or more of the outstanding voting stock of the corporation without prior board approval) for three years following the date that a person becomes an interested shareholder, unless the Board of Directors approves the business combination.

As stated above, our Board does not intend, as a part of its proposed reincorporation, to ask shareholders to adopt any new anti-takeover defenses, even in those areas where Delaware law may provide greater freedom to do so. Consequently, the Certificate of Incorporation of OSI Delaware, attached hereto as Appendix B, contains a provision opting out of Section 203. As a result, OSI Delaware would not be subject to Section 203.

Please take note that, although our Board has designed the reincorporation for purpose of protecting shareholder interests, certain aspects of the reincorporation, including the elimination of the Rights Agreement and the decision to opt out of Section 203, could ultimately be disadvantageous to individual shareholders or groups of shareholders. For example, DGCL 203 has been used successfully to extract a price premium from unsolicited bidders for control or ownership of Delaware Corporations, where such premiums may not otherwise have been available. For a detailed discussion of the DGCL and other differences between California and Delaware corporate law that may affect your rights as a shareholder, see Comparison of the Corporation Laws of California and Delaware.

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Comparison of the Charter Documents of OSI California and OSI Delaware

The rights of our shareholders are currently governed by OSI California s Amended and Restated Articles of Incorporation, its Bylaws and the California General Corporation Law (the CGCL). As a result of the Merger, OSI California s shareholders would become shareholders of OSI Delaware.

With certain exceptions, the provisions of the OSI Delaware Certificate of Incorporation and Bylaws are similar to those of the OSI California Articles of Incorporation and Bylaws. The descriptions below are a summary and they are qualified in their entirety by reference to the respective corporation laws of California and Delaware and to the full text of the Amended and Restated Articles of Incorporation and the Bylaws of OSI California and the Certificate of Incorporation and the Bylaws OSI Delaware.

Size of the Board of Directors

California law provides that the number of directors of a corporation may be fixed in the corporation s articles of incorporation or bylaws, or a range may be established for the number of directors, with the board of directors itself given authority to fix the exact number of directors within such range. The Bylaws of OSI California specify a range of five to nine for the number of directors and authorize the Board to fix the exact number of directors within that range. The number of directors of OSI California is currently set at six. Changes in the size of the Board outside these limits can be made only with the approval of the holders of a majority of the outstanding voting stock of OSI California.

Delaware law provides that, unless a corporation s certificate of incorporation fixes the number of directors, the number shall be fixed by, or in the manner provided in, the corporation s bylaws. The Certificate of Incorporation of OSI Delaware establishes a range of five to nine for the number of directors and authorizes the board of directors to fix the exact number of directors within this range. Changes outside of these limits may be made only by amendment to the certificate of incorporation, which must be approved by at least a majority of the outstanding voting stock of OSI Delaware.

Nasdaq corporate governance rules require that a majority of the Board of Directors be independent. If this Proposal is approved, all of the directors of OSI California would continue to serve as directors of OSI Delaware following the Merger and, as a result, OSI Delaware would satisfy this Nasdaq requirement.

Cumulative Voting

Under a cumulative voting regime, a shareholder is permitted to cast as many votes as there are directors to be elected multiplied by the number of shares registered in such shareholder s name. Such votes may be cast for a single nominee or may be distributed among any two or more nominees. California law permits any shareholder to cumulate his or her votes in the election of directors upon proper notice of the intention to do so. Under Delaware law, cumulative voting is not permitted unless it is expressly authorized in the certificate of incorporation. In keeping with this general rule and the practices of most companies incorporated in Delaware, the Certificate of Incorporation of OSI Delaware would not provide for cumulative voting. The shareholders rights with respect to cumulative voting would, therefore, change if this Proposal is approved.

The Board believes that it is the general practice of companies incorporated in Delaware not to provide for cumulative voting because cumulative voting has the effect of giving disproportionate power to minority shareholders over and at the expense of the interests of the majority of shareholders. Cumulative voting tends to be used specifically in instances in which minority shareholders hold views not held by the majority. By cumulating votes, a minority shareholder can leverage its minority position in order to elect a nominee to a board of directors. By design, such nominee, once on the board of directors, then serves the interests of the minority investor that elected him over the interests of the majority of shareholders, and will tend to act to frustrate the will of the majority of shareholders. After careful review, the Board believes that cumulative voting is typically used to advantage a minority investor who is unable to persuade the majority to vote for his interests. By

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eliminating cumulative voting, therefore, our Board believes that an enhanced environment is created whereby the Board and our management can give greater consideration to the desires of the majority of our shareholders.

Filling Vacancies on the Board of Directors

Under California law, any vacancy on a corporation s board of directors, other than one created by the removal of a director by shareholders, may be filled by the board of directors. If the number of directors is less than a quorum, a vacancy may be filled by the unanimous written consent of the directors then in office, by the affirmative vote of a majority of the directors at a meeting held pursuant to notice or waivers of notice or by a sole remaining director. A vacancy created by the removal of a director by shareholders may be filled only if authorized by a corporation s articles of incorporation or by a bylaw approved by the corporation s shareholders. OSI California s Articles of Incorporation and Bylaws do not authorize directors to fill vacancies created by the removal of a director by shareholders.

The Certificate of Incorporation and Bylaws of OSI Delaware would also permit the majority of directors then in office to fill Board vacancies and newly created directorships, and, like California law, would prohibit Directors from filling any vacancy created by the removal of a director by shareholders. Pursuant to the Certificate of Incorporation and Bylaws of OSI Delaware, such a vacancy could be filled only by a majority of the shareholders. Delaware law permits all vacancies and newly created directorships to be filled by a majority of directors then in office, even if less than a quorum, or by a sole remaining director, unless otherwise provided in the certificate of incorporation or the bylaws, but the Board has elected to set further limits on its powers to fill such vacancies created by the removal of a director by shareholders, as described above.

Shareholder Power to Call Special Shareholders Meeting

Under California law and the Bylaws of OSI California, a special meeting of shareholders may be called by the Board, the Chairman of the Board, the President of OSI California, or the holders of shares entitled to cast not less than ten percent (10%) of the votes at such meeting. California law authorizes charter or bylaw provisions identifying additional persons who may call special meetings, although no such additional persons are identified in the Articles of Incorporation or Bylaws of OSI California.

The proposed Certificate of Incorporation and Bylaws of OSI Delaware provide, just as in the Bylaws of OSI California, that a special meeting of shareholders may be called by the Board, the Chairman of the Board, the Chief Executive Officer of OSI Delaware, or the holders of shares entitled to cast not less than ten percent (10%) of the votes at such meeting. No additional persons are identified in the Certificate of Incorporation or Bylaws of OSI Delaware to call special meetings. Delaware law provides that a special meeting of shareholders may be called by the board of directors or by any other person authorized to do so in the certificate of incorporation or the bylaws.

Shareholder Power To Act by Written Consent

Under California law and the Bylaws of OSI California, shareholders may act by written consent with regard to any action required or permitted to be taken at an annual or special meeting, if written consents signed by the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, provided, however, that in the case of the election of directors by written consent, such consent would be effective only if signed by the holders of all outstanding shares entitled to vote for the election of directors. The proposed Certificate of Incorporation and Bylaws of OSI Delaware would provide stockholders the same rights to act by written consent as are provided under the Bylaws of OSI California.

Termination of Shareholder Rights Plan

As indicated in Principle Reasons for Reincorporation above, since July 31, 2000, our company has maintained a shareholder rights plan in the form of the Rights Agreement. Under the Rights Agreement, our

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Board is authorized to issue additional shares as a defensive strategy in the event of a hostile takeover attempt. If this Proposal is approved by shareholders, then our existing Rights Agreement would terminate upon the consummation of the Merger. Additionally, if this Proposal is approved by shareholders, the Bylaws of OSI Delaware would require our Board to seek shareholder approval prior to the adoption of any future shareholder rights plan with a term of more than 12 months or any amendment which has the effect of extending the term of a shareholders rights plan, except when the Board determines that the adoption or extension of a shareholders rights plan is required in the exercise of the Board s fiduciary duties. Additionally, if a shareholder rights plan or renewal thereof is adopted by the Board without prior shareholder approval in the exercise of the Board s fiduciary duties, then the Bylaws of OSI Delaware would require the Board to submit the shareholders rights plan or renewal thereof to the shareholders for ratification at a shareholders meeting within 12 months of the Board s adoption of the shareholders right plan or renewal. If such shareholders rights plan or renewal was not approved by a majority of the outstanding shares entitled to vote at the meeting, then the shareholders right plan would automatically terminate. The Bylaws and Articles of OSI California contain no such provisions and under the Bylaws and Certificate of OSI California the Board is able to adopt or renew a shareholders rights plan without shareholder approval or ratification.

In conjunction with the adoption of the OSI Delaware bylaws, upon the effectiveness of the Merger, the current Rights Agreement would be terminated. The termination of the Rights Agreement would be effectuated by the adoption of an amendment accelerating the expiration of the Rights Agreement.

Director Submission of Resignation Upon Material Change In Principal Occupation

The Bylaws of OSI Delaware would contain a clause that requires a director to submit a letter of resignation to the Board upon such director s material change in principal occupation or business association. Such a letter of resignation would become effective only if accepted by the Board. If this Proposal is approved by our shareholders, we would also amend our Corporate Governance Guidelines so that the guidelines are consistent with this Bylaw provision.

In contrast, the Bylaws of OSI California do not contain any such requirement. Rather, under our current Corporate Governance Guidelines a director should offer to tender his or her resignation upon a material change in principal occupation only if that change would likely interfere with the director s duties as a director. Under the OSI Delaware approach, the director would be required to tender his or her resignation regardless of whether the material change in principal occupation or business association would likely interfere with the director s duties as a director.

Comparison of the Corporation Laws of California and Delaware

The following provides a general summary of the principal differences between the General Corporation Laws of California and Delaware. It is not an exhaustive description of the differences between the two states laws as it is impractical to summarize all of such differences in this Proposal. Certain principal differences beyond those discussed in Comparison of the Charter Documents of OSI California and OSI Delaware that could materially affect the rights of shareholders include the following:

Classified Board of Directors

A classified board is a board in which directors are divided into multiple classes with staggered terms. California law requires, with an exception applicable to certain publicly-traded companies, that directors be elected annually and, therefore, does not permit the creation of a classified board. Under the exception, a corporation that is listed on the New York Stock Exchange or Nasdaq may create and elect a classified board. By contrast, Delaware law permits, but does not require, the adoption of a classified board of directors, pursuant to which the directors can be divided into as many as three classes with three-year staggered terms of office and with only one class of directors coming up for election each year.

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Our Board is not proposing to implement a classified board in connection with the implementation of the reincorporation.

Removal of Directors

Under California law, any director or the entire board of directors may be removed, with or without cause, with the approval of a majority of the outstanding shares entitled to vote. No individual director, however, may be removed (unless the entire board is removed) if the number of votes cast against the removal would be sufficient to elect the director under cumulative voting.

Under Delaware law, any director or the entire board of directors of a corporation that does not have a classified board of directors or cumulative voting may be removed, with or without cause, by the holders of a majority of the outstanding shares entitled to vote at an election of directors. As indicated in Comparison of the Charter Documents of OSI California and OSI Delaware, the OSI Delaware Certificate of Incorporation and Bylaws do not provide for a classified board or cumulative voting.

Interested Director Transactions

Under both California and Delaware law, certain contracts or transactions in which one or more of a corporation s directors has an interest are not void or voidable simply because of such interest provided that certain conditions are met, such as obtaining the required approval and fulfilling the requirements of good faith and full disclosure. With certain exceptions, the conditions are similar under California and Delaware law. Under California law, after full disclosure of the material facts, either the shareholders or the board of directors must approve any such contract or transaction and, in the case of board approval, the contract or transaction must also be just and reasonable or, if there was no disclosure, the contract or transaction must have been just and reasonable as to the corporation at the time it was approved. In the latter case, California law explicitly places the burden of proof on the interested director. Under Delaware law, a contract or transaction will not be void or voidable if it is approved, after full disclosure, by a majority of the disinterested directors a majority of shareholders or it if is fair to the corporation at the time it is authorized, approved or ratified.

Under California law, to shift the burden of proof on the validity of the contract by shareholder approval, the interested director would not be entitled to vote his or her shares at a shareholder meeting with respect to any action regarding such contract or transaction. To shift the burden of proof on the validity of the contract by board approval, the contract or transaction must be approved by a majority vote of a quorum of the directors, without counting the vote of any interested directors (except that interested directors may be counted for purposes of establishing a quorum).

Under Delaware law, if board approval is sought to shift the burden of proof on the validity of the contract, the contract or transaction must be approved by a majority of the disinterested directors (even if less than a majority of a quorum). Therefore, certain transactions that a California corporation might not be able to approve, because of the number of interested directors, could be approved by a majority of the disinterested directors of a Delaware corporation, although less than a majority of a quorum.

Our Board is not aware of any plans to propose any transaction involving directors that could not be approved under California law, but could be approved under Delaware law.

Indemnification and Limitation of Liability

California and Delaware have similar laws permitting a corporation to indemnify, with certain exceptions, its officers, directors, employees and other agents. The laws of both states also permit corporations to adopt charter and bylaw provisions that effectively eliminate the liability of a director to the corporation or its shareholders for monetary damages for breach of the director s fiduciary duty of care. Delaware law does, however, differ to some extent from California law insofar as it takes a somewhat more lenient approach in allowing corporations to

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indemnify and limit the liability of corporate agents. Certain of the differences between the limitation of liability and indemnification permitted under California and Delaware law are summarized below.

Indemnification. Indemnification is permitted by both California and Delaware law, provided the requisite standard of conduct is met. California law requires indemnification when the individual has successfully defended the action on the merits, as opposed to Delaware law, which requires indemnification relating to a successful defense on the merits or otherwise.

Delaware law generally permits indemnification of expenses, including attorneys fees, judgments, fines and amounts actually and reasonably incurred by an officer, director employee or agent (a covered person) in the defense or settlement of a direct or third-party action, and it permits indemnification of expenses actually and reasonably incurred by a covered person in an action by or in the right of the corporation, in either case upon a determination that the covered person has met the applicable standard of conduct. For a person who is an officer or director at the time the determination is made, the determination must be made by (1) a majority vote of disinterested directors (even though less than a quorum), (2) a committee comprised of and established by a majority vote of such disinterested directors (even if less than a quorum), (3) independent legal counsel in a written opinion if there are no such directors or such directors so direct or (4) the shareholders that the person seeking indemnification has satisfied the applicable standard of conduct. Without requisite court approval, however, no indemnification may be made in the defense of any derivative action in which the person is found to be liable in the performance of his or her duty to the corporation.

California law generally permits a corporation to indemnify any director, officer, employee or agent of the corporation for expenses, monetary damages, fines, and settlement amounts to the extent actually and reasonably incurred in the defense or settlement of a derivative or third-party action, provided there is a determination by (1) majority vote of a quorum of disinterested directors, (2) independent legal counsel in a written opinion if such a quorum of directors is not obtainable, (3) shareholders, with the shares owned by the person to be indemnified, if any, not being entitled to vote thereon or (4) the court in which the proceeding is or was pending upon application made by the corporation, agent or other person rendering services in connection with the defense, whether or not the application by such person is opposed by the corporation, that the person seeking indemnification has satisfied the applicable standard of conduct.

With respect to derivative actions, however, California law prohibits indemnification, unless with court approval, for any person judged to be liable to the corporation in the performance of his or her duty to the corporation and its shareholders. In addition, by contrast to Delaware law, California law requires indemnification only when the individual being indemnified was successful on the merits in defending the action.

Expenses incurred by an officer or director in defending an action may be paid in advance, under Delaware law and California law, if such director or officer undertakes to repay such amounts if it is ultimately determined that he or she is not entitled to indemnification. Such expenses may be paid in advance of former officers and directors and employees and agents of a Delaware corporation upon such terms and conditions as the corporation deems appropriate. In addition, the laws of both states authorize a corporation s purchase of indemnity insurance for the benefit of its officers, directors, employees and agents whether or not the corporation would have the power to indemnify against the liability covered by the policy. California law permits a California corporation to provide rights to indemnification beyond those provided therein to the extent such additional indemnification is authorized in the corporation s articles of incorporation. Thus, if so authorized, rights to indemnification may be provided pursuant to agreements or bylaw provisions which make mandatory the permissive indemnification provided by California law.

OSI California s Articles of Incorporation permit indemnification beyond that expressly mandated by California law and limit director monetary liability to the extent permitted by California law. OSI California s Bylaws make indemnification of directors mandatory in cases where OSI California is permitted by applicable law to indemnify its directors. In a similar way, the Bylaws and Certificate of Incorporation of OSI Delaware require indemnification to the maximum extent permissible under applicable law.

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If this Proposal is approved, in connection with Merger, OSI Delaware would assume the indemnification agreements that OSI California has previously entered into with each of the Directors and executive officers of our company and all references in the agreements to California law and the Articles and Bylaws of OSI California would be changed to reference Delaware law and the Certificate of Incorporation and Bylaws of OSI Delaware. A vote in favor of this Proposal also constitutes approval of the assumption of such indemnification agreements by OSI Delaware.

California and Delaware corporate law, the OSI California Articles of Incorporation and Bylaws and the OSI Delaware Certificate of Incorporation and Bylaws may permit indemnification for liabilities under the Securities Act of 1933, as amended (Securities Act) or the Securities Exchange Act of 1934, as amended (Exchange Act). The Board of Directors has been advised that, in the opinion of the U.S. Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act and the Exchange Act may be contrary to public policy and, therefore, may be unenforceable, absent a decision to the contrary by a court of appropriate jurisdiction.

Limitation of Liability. The Certificate of Incorporation of OSI Delaware eliminates the liability of directors to the corporation or its shareholders for monetary damages for breach of fiduciary duty as directors to the fullest extent permitted by Delaware law, as that law exists currently and as it may be amended in the future. Under Delaware law, a director s monetary liability may not be eliminated or limited by a corporation for: (1) breaches of the director s duty of loyalty to the corporation or its shareholders; (2) acts or omissions not in good faith or which involve intentional misconduct or knowing violations of law; (3) the unlawful payment of dividends or unlawful stock repurchases or redemptions under Section 174 of the DGCL or (4) transactions in which the director received an improper personal benefit. Under Delaware law, a provision in the charter documents that limits a director s liability for the violation of, or otherwise relieves the corporation or its directors from complying with federal or state securities laws is prohibited. Such provisions also may not attempt to limit the availability of non-monetary remedies such as injunctive relief or rescission for a violation of federal or state securities laws.

California law does not permit the elimination of monetary liability where such liability is based on: (1) acts or omissions that involve intentional misconduct or a knowing and culpable violation of law; (2) acts or omissions that a director believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director; (3) any transaction from which a director derived an improper personal benefit; (4) acts or omissions that show a reckless disregard for the director s duty to the corporation or its shareholders in circumstances in which the director was aware, or should have been aware, in the ordinary course of performing a director s duties, of a risk of serious injury to the corporation or its shareholders; (5) acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director s duty to the corporation or its shareholders; (6) interested transactions between the corporation and a director in which a director has a material financial interest and (7) liability for improper distributions, loans or guarantees. Therefore, under California law, monetary liability may exist in circumstances where it would be eliminated under Delaware law.

Both the Articles of Incorporation of OSI California and the Certificate of Incorporation of OSI Delaware provide for the elimination of the liability of the directors to the fullest extent permissible under California and Delaware law respectively. Because of its general belief that Delaware law provides greater protection to directors than California law and that Delaware case law regarding a corporation s ability to limit director liability is more developed and provides more guidance than California law, our Board believes that the proposed reincorporation and the attendant adoption of the OSI Delaware Certificate of Incorporation will give our company greater ability to attract and retain qualified directors and officers. Our Board further believes that the reincorporation will enable our Directors to make decisions that are in the best interest of our company and its shareholders in a corporate environment in which the likelihood of frivolous shareholder suits against them is decreased.

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Inspection of Shareholders List and Books and Records

California law allows any shareholder to inspect the shareholder list, the accounting books and records, and the minutes of board and shareholder proceedings for a purpose reasonably related to such person s interest as a shareholder. In addition, California law provides for an absolute right to inspect and copy the corporation s shareholder list by persons who hold an aggregate of five percent or more of a corporation s voting shares or who hold one percent or more of such shares and have filed a Schedule 14A with the SEC.

Like California law, Delaware law permits any shareholder of record to inspect a list of shareholders and the corporation s other books and records for any proper purpose reasonably related to such person s interest as a shareholder, upon written demand under oath stating the purpose of such inspection and completion of certain other procedures. Delaware law, however, contains no provision comparable to the absolute right of inspection of the corporation s shareholder list provided by California law to certain shareholders, as described above. However, we have included a clause in the Bylaws of OSI Delaware in order to provide that OSI Delaware would continue to practice the approach taken by California law, namely that certain shareholders, as described above, would have an absolute right of inspection of the corporation s shareholder list.

Approval of Certain Corporate Transactions

Under both California and Delaware law, with certain exceptions, any merger, consolidation or sale of all or substantially all the assets must be approved by the board of directors and by a majority of the outstanding shares entitled to vote. Under California law, similar board and shareholder approval is also required in connection with certain additional acquisition transactions. See Appraisal/Dissenters Rights.

Class Voting in Certain Corporate Transactions

California law generally differs from Delaware law with respect to shareholder approval of any merger, certain sales of all or substantially all the assets of a corporation and certain other transactions. Under California law, such transactions must be approved by a majority of the outstanding shares of each class of stock (without regard to limitations on voting rights). By contrast, Delaware law does not generally require class voting, except in connection with certain amendments to the certificate of incorporation that, among other things, adversely affect the rights, powers or preferences of a class of stock.

Appraisal/Dissenters Rights

Under both California and Delaware law, a shareholder of a corporation participating in certain major corporate transactions may, under varying circumstances, be entitled to appraisal rights, pursuant to which such shareholder may receive cash in the amount of the fair market value of the shares held by such shareholder (as determined by agreement of the corporation and the shareholder or by a court) in lieu of the consideration such shareholder would otherwise receive in the transaction.

Under Delaware law, appraisal rights are only available in connection with a merger or consolidation. Appraisal rights generally are not available for the shares of any class or series of stock that were either (i) listed on a national securities exchange or (ii) held of record by more than 2,000 holders, provided that such rights are available for such shares if the holders thereof are required by the terms of the agreement of merger or consolidation to accept for such stock anything except (a) shares of stock of the surviving or resulting corporation (b) shares of stock of any other corporation that, at the effective date of the merger or consolidation, will be either listed on a national securities exchange or held of record by more than 2,000 holders, (c) cash in lieu of fractional shares, or (d) any combination of the shares of stock and cash in lieu of fractional shares. In addition, appraisal rights are not available for any shares of stock of the constituent corporation surviving a merger if the merger did not require for its approval the vote of the stockholders of the surviving corporation as provided in Section 251(f) of DGCL.

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California law differs from Delaware law with respect to appraisal rights (which are referred to as dissenters rights under California law) insofar as California law does not provide for such rights for shares listed on a national securities exchange immediately prior to the transaction unless the holders of at least five percent of the outstanding shares claim the rights or transfer of the shares is restricted by the corporation or any law or regulation. Such rights are also generally not available where the shareholders of the corporation or the corporation itself, or both, immediately prior to the reorganization will own immediately after the reorganization, equity securities constituting more than 83.3% of the voting power of the surviving or acquiring corporation or its parent entity (as will be the case in the Merger). Thus, appraisal rights are not available to shareholders of OSI California under California law with respect to the reincorporation described in this Proposal.

Dividends and Repurchase of Shares

California law does not utilize concepts of par value for shares or statutory definitions of capital, surplus and similar concepts. Delaware law permits a corporation, unless otherwise restricted by its certificate of incorporation, to declare and pay dividends out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is declared and/or for the preceding fiscal year as long as the amount of capital of the corporation is not less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets. In addition, Delaware law generally provides that a corporation may redeem or repurchase its shares only if such redemption or repurchase would not impair the capital of the corporation. Surplus is defined as the excess of a corporation s net assets (*i.e.*, its total assets minus its total liabilities) over the capital. In determining the amount of surplus of a Delaware corporation, the assets of the corporation, including stock of subsidiaries owned by the corporation, may be valued at their fair market value as determined by the board of directors, regardless of their historical book value.

Under California law, a corporation may not make any distribution (including dividends, whether in cash or other property, and including repurchases of its shares) unless either (1) the corporation s retained earnings immediately prior to the proposed distribution equal or exceed the amount of the proposed distribution or (2) immediately after giving effect to such distribution, the corporation s assets (exclusive of goodwill, capitalized research and development expenses and deferred charges) would be at least equal to 125% of its liabilities (not including deferred taxes, deferred income and other deferred credits), and the corporation s current assets, as defined, would be at least equal to its current liabilities (or 125% of its current liabilities if the average pre-tax and pre-interest earnings for the preceding two fiscal years were less than the average interest expenses for such years). Such tests are applied to California corporations on a consolidated basis. Under California law, there are certain exceptions to the foregoing rules for repurchases of shares in connection with certain rescission actions and certain repurchases pursuant to employee stock plans.

OSI California currently maintains a share repurchase program. Under California law, repurchase programs are subject to certain restrictions that are not present in Delaware law. Delaware law, however, provides that a corporation may redeem or repurchase its shares only if the capital of the corporation is not impaired and such redemption or repurchase would not impair the capital of the corporation. If we were to reincorporate in Delaware, this share repurchase program might be operated with fewer restrictions than is the case under California law enabling our Board to extend the program and to thereby return value to our shareholders.

Dissolution

Under California law, shareholders holding 50% or more of the total voting power may elect to require a corporation s dissolution, with or without the approval of the corporation s board of directors, and this right may not be modified by the articles of incorporation. Shareholders who have not voted in favor of dissolution may prevent the dissolution by purchasing for cash at fair market value the shares of the parties attempting to initiate the dissolution.

By contrast, under Delaware law, shareholders holding 100% of the total voting power of the corporation must approve dissolution unless the board of directors approves the proposal to dissolve. If the dissolution is

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initiated by the board of directors, it may be approved by the holders of a simple majority of the corporation s outstanding shares entitled to vote. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions to enable a corporation to prevent a board-initiated dissolution scenario. OSI Delaware s Certificate of Incorporation contains no such supermajority voting requirement, however, and the vote of the holders of a majority of the outstanding shares would be sufficient to approve a dissolution of OSI Delaware which had previously been approved by its Board of Directors.

Shareholder Derivative Suits

California law provides that a shareholder bringing a derivative action on behalf of a corporation need not have been a shareholder at the time of the transaction in question, provided that certain tests are met. California law also provides that the corporation or the defendant in a derivative suit may make a motion to the court for an order requiring the plaintiff shareholder to furnish a security bond. Delaware law differs from California law insofar as it does not have such a bond requirement. However, under Delaware law, a shareholder may bring a derivative action on behalf of the corporation only if the shareholder was a shareholder of the corporation at the time of the transaction in question or if his stock thereafter came to be owned by him by operation of law.

Application of the CGCL to Delaware Corporations

Under Section 2115 of the CGCL, certain foreign corporations (*i.e.*, corporations not organized under California law) are subject to a number of key provisions of the CGCL. Such corporations are included in a special category (referred to in this discussion as quasi-California corporations) if they have characteristics of ownership and operation which indicate that they have significant contacts with California. These characteristics include the following: (1) more than half of the corporation s outstanding voting securities being held of record by persons or entities domiciled in California and (2) the average of a property factor, sales factor and payroll factor (as defined under California law) exceeds a 50% threshold. Key provisions of the CGCL to which a Delaware corporation would be subject are those relating to the election and removal of directors, cumulative voting, prohibition of classified boards of directors unless certain requirements are met, standard of liability and indemnification of directors, distributions, dividends and repurchases of shares, shareholder meetings, approval of certain corporate transactions, dissenters appraisal rights and inspection of corporate records. See Comparison of the Corporation Laws of California and Delaware.

However, an exemption from Section 2115 is provided for corporations whose shares are listed on the New York Stock Exchange or Nasdaq. Because the securities of OSI Delaware would continue to be designated as Nasdaq securities after the Merger, OSI Delaware would be exempt from the provisions of Section 2115 after the reincorporation.

Federal Income Tax Considerations

The following is a discussion of certain federal income tax considerations with respect to the Merger that are generally applicable to holders of OSI California capital stock who receive OSI Delaware capital stock in exchange for their OSI California capital stock in the Merger. This summary is for general information purposes only and does not purport to address all the federal income tax considerations that may be relevant to particular shareholders of OSI California in light of their particular circumstances or who are subject to special treatment under the federal income tax laws (such as shareholders that are dealers in securities, foreign persons or shareholders that acquired their shares in connection with a stock option plan or other compensatory transaction). Furthermore, no foreign, state or local tax considerations are addressed herein. This summary is based on current federal income tax law, which is subject to change at any time, possibly with retroactive effect. ALL SHAREHOLDERS OF OSI CALIFORNIA ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM OF THE MERGER.

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Subject to the limitations, qualifications and exceptions described herein, and assuming the Merger qualifies as a reorganization within the meaning of Section 368(a) of the Code, the following tax consequences generally should result:

(a) No gain or loss should be recognized by a shareholder of OSI California who exchanges all of such shareholder s OSI California capital stock for OSI Delaware capital stock in the Merger;

(b) The aggregate tax basis of the OSI Delaware capital stock received by a shareholder of OSI California in the Merger should be equal to the aggregate tax basis of OSI California capital stock surrendered in exchange therefor; and

(c) The holding period of the OSI Delaware capital stock received in the Merger should include the period for which the OSI California capital stock surrendered in exchange therefor was held, provided that the OSI California capital stock is held as a capital asset at the time of the Merger.

We have not requested a ruling from the Internal Revenue Service, nor an opinion from our outside legal counsel, with respect to the federal income tax consequences of the recincorporation under the Internal Revenue Code. In any case, such an opinion would neither bind the Internal Revenue Service nor preclude it from asserting a contrary position.

State, local or foreign income tax consequences to shareholders may vary from the federal tax consequences described above.

Our company would not recognize gain or loss for federal income tax purposes as a result of the reincorporation, and OSI Delaware would succeed, without adjustment, to the federal income tax attributes of OSI California.

Accounting Consequences

We believe that there will be no material accounting consequences for us resulting from the reincorporation.

Regulatory Approval

To our knowledge, the only required regulatory or governmental approval or filings necessary in connection with the consummation of the reincorporation would be the filings with the Secretary of State of California and the Secretary of State of Delaware.

For the reasons set forth above, our Board of Directors unanimously recommends that you vote FOR this proposal (Proposal 3 on the Proxy Card).

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COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS

Compensation Discussion & Analysis

This Compensation Discussion and Analysis describes the Company s compensation philosophy, objectives, and processes, including the methodology for determining executive compensation for the Named Executive Officers, as defined under the section entitled Compensation of Executive Officers and Directors Summary Compensation Table. Please also refer to the more detailed compensation disclosures beginning with and following the Summary Compensation Table contained in this Proxy Statement.

Overview of Compensation Philosophy and Guiding Principles

The Company recognizes and values the critical role that executive leadership plays in its performance. The Company s executive compensation philosophy is intended to ensure that executive compensation is aligned with its business strategy, objectives and stockholder interests, and is designed to attract, motivate and retain highly qualified executives. Executive compensation elements generally consist of a base salary, an annual cash bonus, long-term equity compensation and certain benefits and perquisites more fully described below.

Role of the Compensation Committee

The Company s Board of Directors appoints members to the Compensation Committee to assist in recommending and reviewing executive compensation for the Named Executive Officers. The Compensation Committee reviews and approves salaries, annual bonuses, long-term incentive compensation, benefits, and other compensation in order to ensure that the Company s executive compensation strategy and principles are aligned with its business strategy, objectives and stockholder interests. Each member of the Compensation Committee is independent within the meaning of the rules and regulations of the SEC and the Nasdaq Listing Standards, as currently in effect.

Executive Compensation Methodology

The Compensation Committee takes into account various qualitative and quantitative indicators of corporate and individual performance in determining the level and composition of compensation to be paid to the Named Executive Officers. The Compensation Committee appreciates the importance of achievements that may be difficult to quantify, and accordingly recognizes qualitative factors, such as superior individual performance, new responsibilities or positions within the Company, leadership ability and overall management contributions to the Company.

In general, the process by which the Compensation Committee makes decisions relating to executive compensation includes, but is not limited to, consideration of the following factors:

- The Company s executive compensation philosophy and practices;

The Company s performance relative to peers and industry standards;

Success in attaining annual and long-term goals and objectives;

Alignment of executive interests with shareholder interests through equity-based awards and performance-based compensation;

Individual and team contributions, performance and experience; and

Total compensation and the mix of compensation elements for each Named Executive Officer.

The Compensation Committee also evaluates the compensation of the Named Executive Officers in light of information regarding the compensation practices and corporate financial performance of other companies in the industries in which the Company operates. The Compensation Committee assesses competitive market

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compensation using a number of data sources reflecting industry practices of other organizations similar in size. The Compensation Committee reviews each component of the executive s compensation against executive compensation surveys prepared by outside compensation consultants engaged by the Compensation Committee. During the year ended June 30, 2009, the Compensation Committee engaged Watson Wyatt to prepare such surveys and provide expert advice. The surveys used for comparison reflect compensation levels and practices for executives holding comparable positions at targeted peer-group companies. These surveys collect compensation data from peer-group companies based on revenues. The survey data utilized by the Compensation Committee generally includes:

- base salary;
- annual bonus;
- total cash compensation;
- pay adjustment trends;
- long-term incentives;
- retirement and capital accumulation;
- benefits and perquisites; and
- equity ownership.

In implementing the Company s compensation program, the Compensation Committee seeks to achieve a balance between compensation and the Company s annual and long-term budgets and business objectives, encourage executive performance in furtherance of stated Company goals, provide variable compensation based on the performance of the Company, create a stake in the executive officer s efforts by encouraging stock ownership in the Company, and align executive remuneration with the interests of the Company s shareholders.

Executive Compensation Program Elements

The Compensation Committee reviews the Company s compensation program to ensure that pay levels and incentive opportunities are competitive with the market and reflect the performance of the Company. In addition, the Compensation Committee reviews components of the Named Executive Officer s compensation against executive compensation surveys of a peer group prepared by outside compensation consultants with the intent to establish targeted levels of base salary, annual incentive bonus and long-term incentive compensation. The particular elements of the compensation program for the Named Executive Officers consist of the following:

Base Salary. Base salary is set to attract and retain executive talent. Base salaries for the Named Executive Officers are established at levels considered appropriate in light of the duties and scope of responsibilities of each executive officer s position, and the experience the individual

brings to the position. Salaries are reviewed periodically and adjusted as warranted to reflect sustained individual performance. Base salaries are kept within a competitive range for each position, reflecting both job performance and market forces.

Annual Incentive Bonus. Annual incentive bonuses are designed to focus the Company s Named Executive Officers on annual operating achievement. Named Executive Officers are eligible for a target annual incentive bonus. The Company pays annual incentive bonuses to its Named Executive Officers based upon the achievement of targets that are indicative of the Company s performance, as well as individual performance. The annual incentive bonus for fiscal year 2009 paid to each of the Named Executive Officers is shown in the Bonus column of the Summary Compensation Table.

Long-Term Incentive Compensation/Equity Based Awards. The Company s long-term incentive program is designed to retain the Named Executive Officers and to align the interests of the Named Executive Officers with the interests of the Company s stockholders. The Company s long-term incentive

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program consists of periodic grants of restricted stock and stock options which are made at the discretion of the Compensation Committee under the Company s Amended and Restated 2006 Equity Participation Plan (the Equity Plan). Decisions made by the Compensation Committee regarding the amount of the grant and other discretionary aspects of the grant take into consideration Company performance, individual performance and experience, contributions to the Company s development, competitive forces to attract and retain senior management, and the nature and terms of grants made in prior years.

The Compensation Committee grants awards to the Named Executive Officers under the Equity Plan. All equity awards are made at fair market value on the date of grant with respect to stock options (which is the date on which the Compensation Committee authorizes the grant). Under the Equity Plan, fair market value is determined by the closing price of the Company s Common Stock on such dates.

Benefits and Perquisites. Benefits and perquisites are designed to attract and retain key employees. Currently, the Named Executive Officers are eligible to participate in benefit plans available to all employees including the Company s 401(k) Plan, Equity Plan, Employee Stock Purchase Plan, medical, dental, and vision health insurance plans and life and long-term disability insurance plans. The 401(k) Plan, Employee Stock Purchase Plan and the medical, vision and dental plans require each participant to pay a contributory amount. The Company has elected to pay amounts contributed to medical, dental, and vision health insurance plans and life and long-term disability insurance plans on behalf of the Named Executive Officer. In addition, the Company maintains an executive medical reimbursement plan under which the Named Executive Officer receives reimbursement for out-of-pocket expenses not covered by their health insurance plans. The Company provides a discretionary matching contribution to its 401(k) Plan for participating employees, including the Named Executive Officers. Employee individual plan contributions are subject to the maximum contribution allowed by the Internal Revenue Service. The Company also leases automobiles or provides an auto allowance to each of the Named Executive Officers.

The Company maintains a Nonqualified Deferred Compensation Plan that is unfunded for federal tax purposes and allows the Named Executive Officers and a select group of other managers or highly compensated employees (as designated by the Compensation Committee) to defer a specified percentage of certain compensation, including salary, bonuses and commissions. The Deferred Compensation Plan also allows the Company to make discretionary contributions and matching contributions on behalf of eligible participants. Distributions may be made in a lump sum (or in installments if elected in accordance with the terms of the Deferred Compensation Plan) upon termination of employment, disability, a specified withdrawal date, or death. Additional information about this plan is summarized below under the heading Nonqualified Deferred Compensation.

The Company also maintains a Nonqualified Defined Benefit Plan that is unfunded for federal tax purposes and that constitutes an unsecured promise by the Company to make payments to participants in the future following their retirement, termination in connection with a change in control of the Company, or their death or disability. Under the terms of the Defined Benefit Plan, a committee designated by the Board of Directors may select participants from among the Named Executive Officers and a select group of managers or other highly compensated employees. Currently, Mr. Chopra is the participant in this plan. Additional information about this plan is summarized below under the heading Pension Benefits.

Total Compensation Mix

The Compensation Committee believes that the elements described above provide a well proportioned mix of equity-based compensation, at risk or performance based compensation, and retention based compensation that produces short-term and long-term incentives and rewards. The Company believes this compensation mix provides the Named Executive Officers a measure of security as to the minimum levels of compensation that they are eligible to receive, while motivating the Named Executive Officers to focus on the business measures that will produce a high level of performance for the Company, as well as reducing the risk of recruitment of highly qualified executive talent by the Company s competitors. The mix of annual incentives and the equity-based awards likewise provides an appropriate balance between short-term

financial performance and long-term financial and stock performance.

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The Company believes that its compensation mix results in a pay-for-performance orientation that is aligned with its compensation philosophy, which takes into account individual, group and company performance, and the market for the executive s services.

Employment Agreements

The Company has entered into employment agreements with Messrs. Chopra, Edrick, Mehra and Sze. The terms of each of such agreements are summarized below under the heading Employment Agreements.

Impact of Accounting and Tax on the Form of Compensation

The Compensation Committee considers applicable tax, securities laws and accounting regulation in structuring and modifying its compensation arrangements and employee benefit plans. The Compensation Committee has considered the impact of Generally Accepted Accounting Standards on the Company s use of equity-based awards. This consideration factored heavily in the Company s decision with respect to stock options grants made in fiscal year 2009. The Compensation Committee also considers the limits on deductibility of compensation imposed by Section 162(m) of the Code with respect to annual compensation exceeding $1.0 million and Section 280(b) of the Code with respect to change in control payments exceeding specified limits.

Business Experience of Executive Officers

The following table sets forth the names, ages and positions of each of the Company s executive officers (the Named Executive Officers):

Name	Age	Position
Deepak Chopra	59	Chairman of the Board of Directors, Chief Executive Officer and President
Ajay Mehra	47	Director, Executive Vice President, and President of Security division
Alan Edrick	42	Executive Vice President and Chief Financial Officer
Victor Sze	42	Executive Vice President and General Counsel
Manoocher Mansouri	53	President of Optoelectronics and Manufacturing division

Deepak Chopra is President and Chief Executive Officer of the Company. He also serves as Chairman of the Board of Directors. Mr. Chopra is the founder of the Company and has served as President, Chief Executive Officer and a Director since the Company s inception in May 1987. He has served as the Company s Chairman of the Board of Directors since February 1992. Mr. Chopra also serves as the President and Chief Executive Officer of several of the Company s major subsidiaries. From 1976 to 1979 and from 1980 to 1987, Mr. Chopra held various positions with ILC, a publicly-held manufacturer of lighting products, including serving as Chairman of the Board of Directors, Chief Executive Officer, President and Chief Operating Officer of its United Detector Technology division. In 1990, the Company acquired certain assets of ILC s United Detector Technology division. Mr. Chopra has also held various positions with Intel Corporation, TRW Semiconductors and RCA Semiconductors. Mr. Chopra holds a Bachelor of Science degree in Electronics and a Master of Science degree in Semiconductor Electronics from Punjab Engineering College in Chandigarh, Punjab, India and a Master of Science degree in Semiconductor Electronics from the University of Massachusetts, Amherst.

Alan Edrick is Executive Vice President and Chief Financial Officer of the Company. Mr. Edrick joined the Company as Executive Vice President and Chief Financial Officer in September 2006. Mr. Edrick has more than 20 years of financial management and public accounting experience, including mergers and acquisitions, financial planning and analysis and regulatory compliance. Between 2004 and 2006, he served as Executive Vice President and Chief Financial Officer of BioSource International, Inc., a biotechnology company, until its sale to Invitrogen Corporation. Between 1998 and 2004, Mr. Edrick served as Senior Vice President and Chief Financial Officer of North American Scientific, Inc., a medical device and specialty pharmaceutical company. Between 1989 and 1998, Mr. Edrick was employed by Price Waterhouse LLP in various positions including Senior

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Manager, Capital Markets. Mr. Edrick received his Bachelor of Arts degree from the University of California, Los Angeles and a Master of Business Administration degree from the Anderson School at the University of California, Los Angeles.

Ajay Mehra is Executive Vice President of the Company and President of the Company s Security division. Mr. Mehra is also a member of the Company s Board of Directors. Mr. Mehra joined the Company as Controller in 1989 and served as Vice President and Chief Financial Officer from November 1992 until November 2002, when he was named the Company s Executive Vice President. Mr. Mehra became a Director in March 1996. Prior to joining the Company, Mr. Mehra held various financial positions with Thermador/Waste King, a household appliance company, Presto Food Products, Inc. and United Detector Technology. Mr. Mehra holds a Bachelor of Arts degree from the School of Business of the University of Massachusetts, Amherst and a Master of Business Administration degree from Pepperdine University.

Victor S. Sze is Executive Vice President and General Counsel of the Company. Mr. Sze joined the Company as Vice President of Corporate Affairs and General Counsel in March 2002. In November 2002, Mr. Sze was appointed Secretary of the Company. In September 2004, Mr. Sze was appointed Executive Vice President. From 1999 through November 2001, Mr. Sze served as in-house counsel to Interplay Entertainment Corp., a developer and worldwide publisher of interactive entertainment software, holding the title of Director of Corporate Affairs. Prior to joining Interplay Entertainment Corp., Mr. Sze practiced law with the firm of Wolf, Rifkin & Shapiro in Los Angeles. Mr. Sze holds a Bachelor or Arts degree in economics from the University of California, Los Angeles and a juris doctorate from Loyola Law School.

Manoocher Mansouri is President of the Company s Optoelectronics and Manufacturing division. Mr. Mansouri joined the Company in 1982 and was named President of its Optoelectronics and Manufacturing division in June 2006. Mr. Mansouri has over 25 years of experience in the optoelectronics industry. Mr. Mansouri has served as President of the Company s OSI Optoelectronics, Inc. subsidiary since May 2000. Mr. Mansouri holds a Bachelor of Science degree in electrical engineering from the University of California, Los Angeles as well as an Executive Program in management certificate from the Anderson School at the University of California, Los Angeles.

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Summary Compensation Table

The following table sets forth the compensation for the principal executive officer, the principal financial officer, the three highest paid executive officers of the Company serving as executive officers on June 30, 2009 whose individual remuneration exceeded $100,000 for the fiscal year ended June 30, 2009, and up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer of the Company at the end of the fiscal year (the Named Executive Officers)(1):

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards (2)($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation (3)(4)(5)(6)($)	Total ($)
Deepak Chopra	2009	1,000,000	900,000	286,694	617,841	291,058	84,650	3,180,243
Chairman, President and Chief Executive Officer	2008	1,000,000	700,000	113,671	881,154		116,171	2,810,996
	2007	998,077	250,000		1,167,801		83,203	2,499,081
Alan Edrick	2009	355,000	285,000	66,019	384,681		53,334	1,144,034
Executive V.P. and Chief Financial Officer	2008	327,596	220,000	22,961	285,429		35,631	891,617
	2007	262,277	150,000		154,895		16,804	583,976
Ajay Mehra	2009	380,000	285,000	61,014	281,732		69,850	1,077,596
Executive V.P. of the	2008	371,827	200,000	17,956	261,306		49,747	900,836
Company, President of Security division	2007	351,928	80,000		260,285		45,845	738,058
Victor S. Sze	2009	330,000	240,000	41,000	220,086		62,706	893,792
Executive V.P., General	2008	311,827	135,000	13,183	224,765		36,776	721,551
Counsel and Secretary	2007	285,865	205,000		247,056		29,768	767,689
Manoocher Mansouri	2009	250,000	60,000	51,200	26,809		34,694	422,703
President of Optoelectronics and Manufacturing	2008	225,000	40,000	23,668	22,072		21,628	332,368
division	2007	184,622	43,000		20,560		22,985	271,167

(1) The Company has eliminated from this table the column titled Non-Equity Incentive Plan Compensation because no amounts would have been included in such column.

(2) The amounts in the Stock Awards and Option Awards column are calculated in accordance with Generally Accepted Accounting Standards.

(3) The Named Executive Officers are eligible to participate in benefit plans available to all employees, including the Company s 401(k) Plan, Equity Plan, medical, dental, and vision health insurance plans and life and long-term disability insurance plans. The 401(k) Plan and the medical, vision and dental plans require each participant to pay a contributory amount. The Company has elected to pay amounts contributed to medical, dental, and vision health insurance plans and life and long-term disability insurance plans on behalf of the Named Executive Officer. In addition, the Company maintains an executive medical reimbursement plan under which the Named Executive Officer receives reimbursement for out-of-pocket expenses not covered by their health insurance plans. The Company provides a discretionary matching contribution to its 401(k) Plan for participating employees, including the Named Executive Officers. Employee individual plan contributions are subject to the maximum contribution allowed by the Internal Revenue Service. The Company also leases automobiles or provides an auto allowance to each of the Named Executive Officers.

(4) Individual breakdowns of amounts set forth in All Other Compensation with respect to the fiscal year ended June 30, 2009 are as follows (in thousands):