SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2002 or

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-19720

ABAXIS, INC.

(Exact name of registrant as specified in its charter)

California	**77-0213001**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

3240 Whipple Road
Union City, California 94587
(Address of principal executive offices including zip code)

(510) 675-6500
(Registrant's telephone number, including area code)

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

At February 6, 2003, 16,816,095 shares of common stock, no par value, were outstanding.

This Report on Form 10-Q consists of 73 pages. The exhibit index is on page 28.

ABAXIS, INC.
Report On Form 10-Q For The
Quarter Ended December 31, 2002
INDEX

Item	Page
Facing Sheet	1
Table of Contents	2
PART I. Financial Information	
Item 1. Financial Statements	
Condensed Statements of Operations - Three and Nine Months ended December 31, 2002 and 2001	3
Condensed Balance Sheets – December 31, 2002 and March 31, 2002	4
Condensed Statements of Cash Flows - Nine Months ended December 31, 2002 and 2001	5
Notes to Condensed Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	27
PART II. Other Information	
Item 1. Legal Proceedings	28
Item 2. Changes in Securities and Use of Proceeds	28
Item 3. Defaults Upon Senior Securities	28
Item 4. Submission of Matters to a Vote of Security Holders	28
Item 5. Other Information	28
Item 6. Exhibits and Reports on Form 8-K	28
Signatures	30
Certifications Pursuant to Securities Exchange Act Rule 13a-14	31

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

Abaxis, Inc.
Condensed Statements of Operations
(unaudited and rounded in thousands, except per share data)

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2002	2001	2002	2001
Revenues:				
Product sales, net	$ 8,453,000	$ 8,004,000	$ 24,453,000	$ 22,285,000
Development and licensing revenue	35,000	35,000	151,000	135,000
Total revenues	8,488,000	8,039,000	24,604,000	22,420,000
Costs and operating expenses:				
Cost of product sales	4,391,000	4,208,000	12,763,000	11,925,000
Selling, general, and administrative	2,875,000	2,331,000	8,291,000	6,850,000
Research and development	870,000	991,000	2,810,000	2,835,000
Total costs and operating expenses	8,136,000	7,530,000	23,864,000	21,610,000
Income from operations	352,000	509,000	740,000	810,000
Interest income	48,000	13,000	168,000	65,000
Interest expense	(24,000)	(51,000)	(113,000)	(179,000)
Income before income taxes	376,000	471,000	795,000	696,000
Income tax provision	11,000	25,000	24,000	29,000
Net income	365,000	446,000	771,000	667,000
Preferred dividends and accretion (a)	(204,000)	(115,000)	(1,031,000)	(331,000)
Net income (loss) attributable to common shareholders	$ 161,000	$ 331,000	$ (260,000)	$ 336,000
Basic and diluted net income (loss) per share	$ 0.01	$ 0.02	$ (0.02)	$ 0.02
Weighted average number of common shares outstanding used in calculating basic net income (loss) per share	16,799,000	16,322,000	16,576,000	16,241,000
Weighted average number of shares outstanding used in calculating diluted net income (loss) per share	17,148,000	16,734,000	16,576,000	16,743,000

(a) For the three months ended December 31, 2002, includes dividends of $204,000. For the nine months ended December 31, 2002, includes dividends of $661,000 and a non-cash dividend charge of $370,000 related to the beneficial conversion feature contained in the Company's Series E Preferred Stock issued in April 2002. For the three and nine months ended December 31, 2001, includes stock dividends of $115,000 and $331,000, respectively. See note 3 to condensed financial statements.

See notes to condensed financial statements.

Abaxis, Inc.
Condensed Balance Sheets
(unaudited and rounded in thousands)

	December 31, 2002	March 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,672,000	$ 4,098,000
Stock offering proceeds receivable	--	3,446,000
Trade receivables (net of allowances of $248,000 at December 31, 2002 and $244,000 at March 31, 2002)	6,567,000	6,924,000
Inventories	6,002,000	5,558,000
Prepaid expenses	323,000	476,000
Total current assets	23,564,000	20,502,000
Property and equipment - net	8,714,000	9,071,000
Deposits and other assets	301,000	107,000
Total assets	$ 32,579,000	$ 29,680,000
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit	$ 1,000,000	$ 2,000,000
Accounts payable	2,331,000	1,914,000
Dividends payable	204,000	230,000
Accrued payroll and related expenses	1,611,000	1,440,000
Other accrued liabilities	259,000	497,000
Warranty reserve	219,000	192,000
Deferred revenue	309,000	383,000
Current portion of capital lease obligations	66,000	97,000
Current portion of long-term debt	467,000	467,000
Total current liabilities	6,466,000	7,220,000
Deferred rent	296,000	198,000
Deferred revenue, less current portion	349,000	417,000
Capital lease obligations, less current portion	49,000	103,000
Long-term debt, less current portion	583,000	933,000
Commission obligation, less current portion	82,000	96,000
Total non-current liabilities	1,359,000	1,747,000
Commitments and contingencies		
Convertible preferred stock, no par value: outstanding shares - 5,570 at December 31, 2002 and 3,750 at March 31, 2002 (liquidation preference of $5,570,000 at December 31, 2002 and $3,750,000 at March 31, 2002)	3,176,000	2,561,000
Shareholders' equity:		
Convertible preferred stock, no par value: authorized shares - 5,000,000; issued and outstanding shares - 6,508 at December 31, 2002 and 6,558 at March 31, 2002	3,143,000	3,193,000
Common stock, no par value: authorized shares - 35,000,000; issued and outstanding shares - 16,808,483 at December 31, 2002; issued and outstanding shares - 16,339,735 at March 31, 2002	80,579,000	76,843,000
Accumulated deficit	(62,144,000)	(61,884,000)
Total shareholders' equity	21,578,000	18,152,000
Total liabilities, convertible preferred stock and shareholders' equity	$ 32,579,000	$ 29,680,000

See notes to condensed financial statements.

Abaxis, Inc.
Condensed Statements of Cash Flows
(unaudited and rounded in thousands)

	Nine Months Ended December 31,	
	2002	**2001**
Operating activities:		
Net income	$ 771,000	$ 667,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,224,000	1,225,000
Stock compensation (reversal), including amortization of deferred stock compensation	(22,000)	56,000
Common stock issued for services	8,000	--
Changes in assets and liabilities:		
Trade receivables	357,000	570,000
Inventories	(444,000)	958,000
Prepaid expenses	153,000	(572,000)
Deposits and other assets	(194,000)	214,000
Accounts payable	417,000	(1,921,000)
Accrued payroll and related expenses	342,000	472,000
Warranty reserve and other accrued liabilities	(211,000)	20,000
Deferred rent	98,000	--
Deferred revenue	(142,000)	72,000
Long-term commission obligations	(14,000)	(70,000)
Income taxes payable	--	27,000
Net cash provided by operating activities	2,343,000	1,718,000
Investing activities:		
Purchase of property and equipment	(867,000)	(562,000)
Net cash used in investing activities	(867,000)	(562,000)
Financing activities:		
Borrowings under line of credit	1,000,000	600,000
Repayment of line of credit	(2,000,000)	(790,000)
Repayment of equipment financing	(350,000)	(500,000)
Repayment of capital lease obligations	(85,000)	(69,000)
Net cash proceeds from issuance of preferred stock	6,812,000	--
Exercise of warrants and common stock options	178,000	379,000
Dividends paid	(457,000)	--
Net cash provided by (used in) financing activities	5,098,000	(380,000)
Net increase in cash and cash equivalents	6,574,000	776,000
Cash and cash equivalents at beginning of period	4,098,000	2,012,000
Cash and cash equivalents at end of period	$ 10,672,000	$ 2,788,000
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of interest capitalized	$ 108,000	$ 193,000
Noncash financing activities:		
Preferred stock dividends and accretion	$ 574,000	$ 331,000
Issuance of common stock for conversion of preferred stock and payment of dividends payable	$ 2,080,000	$ 446,000
Warrants and options issued for services and issuance costs	$ 369,000	$ --
Common stock issued for employees benefit plans	$ 172,000	$ --

See notes to condensed financial statements.

ABAXIS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The condensed unaudited financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002. The unaudited condensed financial statements included herein reflect all normal recurring adjustments, which are, in the opinion of management, necessary to state fairly the results of operations and financial position for the periods presented. Certain amounts as presented in the financial statements for the previous periods have been reclassified to conform to the fiscal year 2003 financial statement presentation. The results for the period ended December 31, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2003 or for any future period.

2. SIGNIFICANT ACCOUNTING POLICIES

Comprehensive Income - Comprehensive income was the same as net income for the three and nine months ended December 31, 2002 and 2001.

New Accounting Pronouncements - In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. The Company adopted SFAS No. 143 effective April 1, 2002. The adoption of SFAS No. 143 did not have a significant impact on the Company's financial position or result of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. The Company adopted SFAS No. 144 effective April 1, 2002. The adoption did not have a significant impact on the Company's financial position or result of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 generally requires that any gains or losses on extinguishment of debt in current or prior periods be classified as other income (expense). The Company adopted SFAS No. 145 effective April 1, 2002. The adoption did not have a significant impact on the Company's financial position or result of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. The Company will adopt the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The Company intends to adopt the disclosure provisions of SFAS No. 148 on January 1, 2003. The Company does not expect to change to using the fair value based method of accounting for stock-based employee compensation; and therefore, adoption of SFAS No. 148 is not expected to have an impact on the financial position, results of operations or cash flows of the Company.

FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee.

3. NET INCOME (LOSS) PER SHARE INFORMATION

Basic net income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding and the net income (loss) attributable to common shareholders. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares that would have been outstanding during the period assuming the issuance of common shares for all potential dilutive common shares outstanding. Shares used in the calculation of diluted net income (loss) per share for the three and nine months ended December 31, 2002 exclude an aggregate of 3,544,260 and 3,678,801 common equivalent shares, respectively, and for the three and nine months ended December 31, 2001 exclude an aggregate of 3,435,720 and 2,819,167 common equivalent shares, respectively, related to outstanding options and warrants, using the treasury stock method and related to preferred shares issuable upon conversion of preferred stock, as their effect would be antidilutive.

In conjunction with the issuance of 3,620 shares of Series E convertible preferred stock at $1,000 per share in April 2002, each investor received a warrant to purchase 50 shares of common stock for each preferred share acquired. The common stock warrants are exercisable at $7.00 per share. The portion of proceeds attributable to the value of such warrants of $590,000, determined using the Black-Scholes option-pricing model, and a corresponding charge reflecting the value of the embedded beneficial conversion feature was allocated to common stock. During the nine months ended December 31, 2002, the Company recorded non-cash dividend charges related to the accretion of the beneficial conversion feature of $370,000.

The reconciliation of the weighted average number of common shares outstanding used in calculating basic net income (loss) per share and in calculating diluted net income (loss) per share is as follows (rounded in thousands):

	2002	2001	2002	2001
Weighted average number of common shares outstanding used in calculating basic net income (loss) per share	16,799,000	16,322,000	16,576,000	16,241,000
Weighted average number of dilutive stock options outstanding using the treasury stock method	349,000	412,000	--	482,000
Weighted average number of shares outstanding used in calculating diluted net income (loss) per share	17,148,000	16,734,000	16,576,000	16,723,000

4. INVENTORY

Inventories are stated at the lower of cost (first-in, first-out) or market and consist of the following (rounded in thousands):

Raw materials	$ 2,795,000	$ 2,289,000
Work-in-process	2,516,000	1,580,000
Finished goods	691,000	1,689,000
	$ 6,002,000	$ 5,558,000

5. PRODUCT LIABILITY

The Company provides for provisions for the estimated future costs to be incurred under the Company's standard warranty obligations of one year. The provision for warranty reserves is based on the history of warranty repairs and the outstanding warranty obligations.

The warranty reserve activity is summarized as follows for the three-month and nine-month periods ended December 31, 2002 (rounded in thousands):

	Three Months Ended December 31, 2002	Nine Months Ended December 31, 2002
Beginning Balance	$ 178,000	$ 192,000
Additions Charged to Expense	235,000	501,000
Deductions From Reserve	(194,000)	(474,000)
Ending Balance	$ 219,000	$ 219,000

6. LINE OF CREDIT AND LONG-TERM DEBT

In March 2002, the Company terminated certain line of credit and equipment financing loans and entered into new line of credit and equipment financing loans with Comerica Bank-California. The new line of credit provides for borrowings of up to $5,250,000, based on the Company's outstanding accounts receivables and inventory, as defined by the bank: up to $4,000,000 is collateralized by domestic receivables and up to $1,250,000 is collateralized by foreign receivables. This new line of credit bears interest at the prime rate, which was 4.25% at December 31, 2002, and is payable monthly. Of the $4,000,000 domestic line of credit, $820,000 was committed to secure a letter of credit for the Company's facilities lease. The domestic line of credit terminates upon notification by either party and the outstanding balance is payable upon demand. The foreign line of credit expired in September 2002 and was renewed until September 2003. The Company's weighted average interest rate on borrowings under its line of credit facilities during the three months ended December 31, 2002 and 2001 was 4.45% and 6.16%, respectively. During the three and nine months ended December 31, 2002, the Company paid down $1,000,000 and $2,000,000, respectively, of its domestic line of credit. During the three months ended December 31, 2002, the Company borrowed $1,000,000 of its domestic line of credit. At December 31, 2002, the amount outstanding under the Company's line of credit, which consists of both domestic and foreign borrowings, was $1,000,000 and $2,997,000 was available for additional borrowings.

The balance of the new equipment financing loan at December 31, 2002 was $1,050,000. The equipment loan bears interest at the prime rate plus 1%, which was 5.25% at December 31, 2002, and is payable in monthly installments of principal and interest totaling approximately $42,000 over a period of three years. The weighted average interest rate on equipment financing loans during the three months ended December 31, 2002 and 2001 was 5.45% and 6.66%, respectively.

The line of credit and equipment financing agreements contain certain financial covenants, which are evaluated on a quarterly basis. Included in these financial covenants, among other stipulations, is a requirement that the Company have a minimum net income of $25,000 before preferred stock dividends and accretion in any three quarters of a fiscal year, provided that any loss before preferred stock dividends and accretion incurred in the remaining quarter is not to exceed $250,000. The Company is also required to be profitable, as defined, on a fiscal year to date basis beginning with the six month period ending September 30 and to have net income before preferred stock dividends and accretion on preferred stock of $1,150,000 for the fiscal year ending March 31, 2003. In addition, the Company is required to have a minimum liquidity coverage, as defined, of not less than 1.25 to 1.00, cash flow coverage, as defined, of not less than 1.20 to 1.00, debt to net worth ratio, as defined, not greater than 1.00 to 1.00 and to maintain a tangible effective net worth, as defined, of not less than $15,000,000 to be increased by 100% of any net equity capital raised and a minimum of 50% of net income. At December 31, 2002, the Company was in compliance with all of these covenants.

Borrowings under the line of credit and equipment financing loans are secured by a pledge of the Company's net book value of assets of $24.8 million at December 31, 2002 including its intellectual property.

7. CUSTOMER AND GEOGRAPHIC INFORMATION

The Company currently operates in one segment and develops, manufactures and markets portable blood analysis systems for use in any patient care setting to provide clinicians with rapid blood constituent measurements. The following is a summary of revenues from external customers for each group of products and services provided by the Company (rounded in thousands):

	2002	2001	2002	2001
Blood chemistry analyzers	$ 2,643,000	$ 2,620,000	$ 7,213,000	$ 7,535,000
Reagent discs and kits	5,574,000	4,775,000	15,836,000	13,377,000
Other	236,000	609,000	1,404,000	1,373,000
Product sales, net	8,453,000	8,004,000	24,453,000	22,285,000
Development and licensing revenue	35,000	35,000	151,000	135,000
Total revenues	$ 8,488,000	$ 8,039,000	$ 24,604,000	$ 22,420,000

Two distributors, Vedco Inc. and DVM Resources accounted for 40% and 10%, respectively, of total revenues for the three-month period ended December 31, 2002, and 43% and 9%, respectively, of total revenues for the three-month period ended December 31, 2001. Vedco Inc. and DVM Resources accounted for 37% and 10%, respectively, of total revenues for the nine-month period ended December 31, 2002, and 46% and 7%, respectively, of total revenues for the nine-month period ended December 31, 2001. The following is a summary of revenues by geographic region based on customer location (rounded in thousands):

	Three Months Ended December 31, 2002		Nine Months Ended December 31, 2002	
	2002	2001	2002	2001
United States	$ 7,098,000	$ 6,847,000	$ 20,875,000	$ 19,520,000
Europe	975,000	841,000	2,772,000	1,958,000
Asia and Latin America	415,000	351,000	957,000	942,000
Total	$ 8,488,000	$ 8,039,000	$ 24,604,000	$ 22,420,000

Substantially all of the Company's long-lived assets are located in the United States.

8. CONVERTIBLE PREFERRED STOCK

Series E Convertible Preferred Stock – In March 2002 and April 2002, the Company sold 3,750 and 3,620 shares of Series E convertible preferred stock (the "Series E Preferred") at a per share price of $1,000, resulting in net cash proceeds to the Company aggregating $6,812,000. The Company recorded stock offering proceeds receivable of $3,446,000 for the first closing of Series E Preferred at March 31, 2002. The proceeds were received by the Company on April 3, 2002. The Series E Preferred is non-voting and pays an annual cumulative dividend of 6.5% of the original issue price per share, payable semiannually in cash or shares of common stock at the Company's election. Upon the liquidation of, dissolution of, winding-up of, or change of control in Abaxis, holders of the Series E Preferred are entitled to receive $1,000 per share, the original issue price, plus any accrued but unpaid dividends, as a liquidation preference prior to Abaxis making any distributions to holders of common stock.

During the nine months ended December 31, 2002, certain holders of Series E Preferred converted 1,800 shares into 276,922 shares of common stock. The remaining shares of Series E Preferred automatically converts into 856,924 shares of common stock upon the earlier of: (i) the first date following March 28, 2003 on which the closing per share price of Abaxis common stock exceeds $12.00 for twenty consecutive trading days (the "Automatic Price Conversion Date"), or (ii) March 28, 2007; provided, however, that if the closing sales price of the common stock as reported on Nasdaq National Market System is less than $6.50 for each of the twenty (20) consecutive trading days immediately prior to and including March 28, 2007, then the Series E preferred stock will convert into common stock automatically upon the earlier to occur of (A) March 28, 2008, or (B) the Automatic Price Conversion Date. The shares may also be converted at the option of the holder at any time. The number of common shares into which the Series E convertible preferred stock is convertible is subject to adjustment for anti-dilution, stock splits, and other certain events.

Each Series E Preferred investor received a warrant to purchase 50 shares of common stock for each preferred share acquired. The common stock warrants are valid for five years and exercisable at $7.00 per share. Approximately $1,235,000 of the aggregate proceeds were attributed to the value of the warrants and allocated to common stock. The fair value of the warrants was determined using the Black-Scholes option-pricing model with the following assumptions: contractual life of five years, volatility of 78.6%, risk free interest rate of 4.57%-4.92% and no dividends during the contractual term. In connection with the sale of the Series E convertible preferred stock the Company issued to advisors for services a fully-vested warrant to purchase 113,385 shares of its common stock at an exercise price of $6.50 per share and 25,000 shares of its common stock. The aggregate value of these warrants and shares of common stock of $601,000 was recorded as a stock issuance cost. The value of the warrants was determined using the Black-Scholes option pricing model with assumptions substantially consistent with those used for valuing the warrants issued to the investors.

In accordance with the provisions of Emerging Issues Task Force (EITF) Issue 00-27, “Application of EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios,' to Certain Convertible Securities,” which became effective in November 2000, the allocated value of the Series E convertible preferred stock contained a beneficial conversion feature calculated based on the difference between the effective conversion price of the proceeds allocated to the Series E convertible preferred stock and the fair market value of the common stock at the date of issuance. The Company determined an aggregate dividend charge of $957,000 representing the value of the beneficial conversion feature.

The amounts recorded in the Company’s financial statements for the nine months ended December 31, 2002, representing the amounts attributed to the closings in April 2002, were as follows: net cash proceeds - $3,366,000 ($254,000 of issuance costs incurred), allocation to warrants issued to investors - $590,000, warrants issued to advisors for services - $361,000, and the amount of the dividend charge related to the value of beneficial conversion feature - $370,000.

9. LITIGATION

On March 28, 2002, Idexx Laboratories, Inc., the Company's principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for the Company by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringed on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In May 2002, the Company entered into an agreement with S.A. Scientific under which the two parties agreed to joint representation by counsel to defend against the legal action filed by Idexx. On December 6, 2002, the Company, and S.A. Scientific, Inc. entered into a settlement agreement with Idexx under which, among other terms, the Company agreed to pay Idexx $249,500 in cash damages and to cease the selling of the particular canine heartworm antigen test referenced in the complaint.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes a number of forward-looking statements which reflect Abaxis' current views with respect to future events and financial performance. In this report, the words “will”, "anticipates”, “believes”, “expects”, “future”, “intends”, “plans”, and similar expressions identify forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties, including but not limited to those discussed below, that could cause actual results to differ materially from historical results or those anticipated. Such risks and uncertainties include market acceptance of Abaxis’ products and continuing development of its products, obtaining required Food and Drug Administration ("FDA") clearance and other government approvals, risks associated with manufacturing and distributing products on a commercial scale, including complying with Federal and state food and drug regulations, and general market conditions and competition. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Abaxis assumes no obligation to update any forward-looking statements as circumstances change.

Abaxis, Inc. ("us” or “we"), incorporated in California in 1989, develops, manufactures and markets portable blood analysis systems for use in any patient-care setting to provide clinicians with rapid blood constituent measurements. Our primary product is a system consisting of a compact 6.9 kilogram analyzer and a series of single-use plastic discs, called reagent discs, containing all the chemicals required to perform a panel of up to 12 tests. The system

can be operated with minimal training and performs multiple routine tests on whole blood, serum or plasma using either venous or fingerstick samples. The system provides test results in less than 15 minutes with the precision and accuracy equivalent to a clinical laboratory analyzer. We currently market this system for veterinary use under the name VetScan and in the human medical market under the name Piccolo®. We also market a hematology analyzer under the name Vetscan HMT, which provides a complete blood count ("CBC") including three-part white blood cell ("WBC") differential in less than 2 minutes and requires only 12 υL (microliter) of whole blood. It provides results for eight selectable species, plus two user configurable programs. We market one type of reagent kit with this analyzer. We purchase the hematology analyzer and reagent kits from Melet Schloesing Laboratories of France. We are not obligated to purchase a minimum amount of analyzers or reagent kits. We market the combination of the VetScan and the VetScan HMT under the name VetScan DXS.

In the three months ended December 31, 2002, our domestic revenues accounted for 84% of our total revenues versus 85% in the three months ended December 31, 2001. In the nine months ended December 31, 2002, our domestic revenues accounted for 85% of total revenues versus 87% in the nine months ended December 31, 2001. International revenues accounted for 16% of total revenues in the three months ended December 31, 2002 versus 15% in the three months ended December 31, 2001. In the nine months ended December 31, 2002, international revenues accounted for 15% of total revenues versus 13% in the nine months ended December 31, 2001. The reason for the decrease in domestic revenues and commensurate increase in international revenues as a percentage of total revenues was due primarily to our strategy to expand European markets.

During the three months ended December 31, 2002, we sold 335 instruments worldwide, which includes both blood chemistry and hematology analyzers, a 2% decrease from 341 instruments sold in the three months ended December 31, 2001. During the nine months ended December 31, 2002, we sold 881 instruments worldwide, a 8% decrease from 962 instruments sold in the nine months ended December 31, 2001. The decrease in instrument sales reflects lower unit shipments primarily in the United States. Our goal is to increase instrument sales in future periods by allocating additional resources to product selling and marketing, which includes a substantial increase in our sales force and incentive programs to retain highly skilled sales professionals.

Reagent discs and kits sold during the three months ended December 31, 2002 were approximately 466,000, an increase of 12% compared to shipments of approximately 415,000 reagent discs and kits during the three months ended December 31, 2001. Reagent discs and kits sold during the nine months ended December 31, 2002 were approximately 1,330,000, an increase of 15% compared to shipments of approximately 1,157,000 reagent discs and kits during the nine months ended December 31, 2001. The increase in reagent disc and kits sold is consistent with our belief that there will be increasing recurring reagent disc revenue as our product lines achieve greater market penetration and more consistent utilization. This growth is mainly attributable to the expanded installed base of VetScan DXS systems and higher consumption rates of institutional users.

Sales for any future periods are not predictable with a significant degree of certainty. We generally operate with limited order backlog because our products typically are shipped shortly after orders are received. As a result, product sales in any quarter are generally dependent on orders booked and shipped in that quarter. Our expense levels, which are to a large extent fixed, are based in part on our expectations of future revenues. Accordingly, we may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any such shortfall would negatively affect our operating results and financial condition. Our sales may be adversely impacted by pricing pressure from competitors. Our ability to be consistently profitable will depend, in part, on our ability to increase our sales volumes of our VetScan DXS and Piccolo products and to compete with other competitors successfully. We believe that period to period comparisons of our results of operations are not necessarily meaningful.

There has been little or no impact on our business due to inflation.

We introduced our VetScan Canine Heartworm Antigen Test in December 2001. The test is a stand-alone lateral flow device similar in format to simple pregnancy tests. Results are available in a maximum of 10 minutes. We purchased the Vetscan Canine Heartworm Antigen Test from S.A. Scientific, Inc., of San Antonio, Texas, a privately-held leader in the development and manufacturing of a wide-range of one-step rapid tests for various diseases. The addition of the VetScan Canine Heartworm Antigen Test expanded our product lines in the veterinary market. However, in March 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary market, filed a patent infringement lawsuit against both S.A. Scientific and us. On December 6, 2002, S.A. Scientific, Inc. and us entered into a settlement agreement with Idexx under which, among other terms, we agreed to pay Idexx $249,500 in cash damages and to cease the selling of the particular canine heartworm antigen test referenced in the complaint. We intend to develop and introduce another canine heartworm antigen test in the near future, although there can be

no assurance that we will be successful in such efforts or that Idexx will not claim infringement under the patents previously enforced against us or upon other grounds.

We continue to explore the application of our proprietary technology used to produce the dry reagents used in the reagent discs, called the Orbos Discrete Lyophilization Process, to other companies' products. This process allows the production of an accurate, precise amount of active chemical ingredients in the form of a soluble bead. We believe that the Orbos process has broad applications in products where delivery of active ingredients in a stable, pre-metered format is desired. We have contracts with Becton Dickinson Immunocytometry Systems and Amersham Biosciences Corp. (formerly Pharmacia Biotech, Inc.) to either supply products or license Orbos technology. We are currently working with other companies to determine the potential suitability of the Orbos technology to these companies' products. As resources permit, we will pursue other development, licensing or manufacturing agreement opportunities for our Orbos technology with other companies. There can be no assurances, however, that other applications will be identified or that additional agreements with us will result.

Results of Operations

Total Revenues

During the three months ended December 31, 2002, we reported total revenues of $8,488,000, a $449,000 or 6% increase from total revenues of $8,039,000 for the three months ended December 31, 2001. The revenue increase was due to an increase of $23,000 in instrument sales, an increase of $799,000 in reagent sales and a decrease of $373,000 in other sales, most of which was due to sales from the canine heartworm tests. Our instrument and reagent sales accounted for 31% and 66%, respectively, of our product sales in the three months ended December 31, 2002 compared to 33% and 60%, respectively, of our product sales in the three months ended December 31, 2001. During the nine months ended December 31, 2002, we reported total revenues of $24,604,000, a $2,184,000 or 10% increase from total revenues of $22,420,000 for the nine months ended December 31, 2001. Our instrument and reagent sales accounted for 29% and 65%, respectively, of our product sales in the nine months ended December 31, 2002 compared to 34% and 60%, respectively, of our product sales in the nine months ended December 31, 2001.

During the three months ended December 31, 2002 and 2001, we reported development and licensing revenues of $35,000 from development and licensing revenues. During the nine months ended December 31, 2002, we reported development and licensing revenues of $151,000, a $16,000 or 12% increase from development and licensing revenues of $135,000 for the nine months ended December 31, 2001. The fluctuations in development and licensing revenue are due to changes in our customers' use of our Orbos technology.

Total revenues in the U.S. for the three months ended December 31, 2002 were $7,098,000, a $251,000 or 4% increase from total U.S. revenues of $6,847,000 for the three months ended December 31, 2001. Total revenues in the U.S. for the nine months ended December 31, 2002 were $20,875,000, a $1,355,000 or 7% increase from total U.S. revenues of $19,520,000 for the nine months ended December 31, 2001.

Total revenues in Europe for the three months ended December 31, 2002 were $975,000, a $134,000 or 16% increase from revenues of $841,000 for the three months ended December 31, 2001. Total revenues in Europe for the nine months ended December 31, 2002 were $2,772,000, a $814,000 or 42% increase from revenues of $1,958,000 for the nine months ended December 31, 2001. The increase in revenues reflects both an increase in instrument sales of approximately $301,000 and reagent sales of approximately $513,000.

Total revenues in Asia and Latin America for the three months ended December 31, 2002 were $415,000, a $64,000 or 18% decrease from revenues of $351,000 for the three months ended December 31, 2001. Total revenues in Asia and Latin America for the nine months ended December 31, 2002 were $957,000, a $15,000 or 2% increase from revenues of $942,000 for the nine months ended December 31, 2001. The slight increase in revenues in Asia and Latin America reflects an increase in instrument sales of $67,000 and a decrease in reagent sales of approximately $52,000.

Cost of Product Sales

Cost of product sales during the three months ended December 31, 2002 was $4,391,000, or 52% of product sales, as compared to $4,208,000, or 52% of product sales, in the three months ended December 31, 2001. Cost of product sales during the nine months ended December 31, 2002 was $12,763,000, or 52% of product sales, as compared to $11,925,000, or 53% of product sales, in the nine months ended December 31, 2001. The increase in cost of product sales was primarily attributable to continued increases in sales volume of instruments and reagent discs.

Selling, General and Administrative Expense

Selling, general and administrative expenses were $2,875,000, or 34% of total revenues, in the three months ended December 31, 2002 compared to $2,331,000, or 29% of total revenues, in the three months ended December 31, 2001. Selling, general and administrative expenses were $8,291,000, or 34% of total revenues, in the nine months ended December 31, 2002, compared to $6,850,000, or 31% of total revenues, in the nine months ended December 31, 2001. The increase in selling, general and administrative expenses was due primarily to our strategy to expand in the human medical market and an increase in legal and fees and related costs incurred to defend legal action filed by Idexx Laboratories, Inc. The case was settled under the terms of an out-of-court agreement between the parties during the three months ended December 31, 2002. We expect selling, general and administrative expenses to slightly increase due to our strategy to expand in the human medical market.

Research and Development Expense

Research and development expenses were $870,000, or 10% of total revenues, in the three months ended December 31, 2002, compared to $991,000, or 12% of total revenues, in the three months ended December 31, 2001. Research and development expenses were $2,810,000, or 11% of total revenues, in the nine months ended December 31, 2002, compared to $2,835,000, or 13% of total revenues, in the nine months ended December 31, 2001. We expect the dollar amount of research and development expenses to increase in the fiscal year ending March 31, 2003 as compared to fiscal year ended March 31, 2002 and slightly increase as a percentage of total revenues as we continue to allocate resources for development and clinical trials of new test methods to expand our test menus. There can be no assurance, however, that we will undertake such research and development activities in future periods or, if we do, that such activities will be successful.

Interest Income

Our interest income was $48,000 for the three months ended December 31, 2002, compared to $13,000 for the three months ended December 31, 2001. Interest income was $168,000 for the nine months ended December 31, 2002, compared to $65,000 for the nine months ended December 31, 2001. The interest income of $168,000 for the first nine months period of fiscal 2003 included approximately $116,000 earned on cash and cash equivalents and interest received of approximately $52,000 for our reagent rental program, in which we offer our customers extended payment terms for the purchase of instruments with no right of return provided also that they purchase a minimum quantity of reagent discs or kits from us over the term of the contract.

Interest Expense

We incurred interest expense of approximately $19,000 on our capital equipment loan and line of credit and approximately $5,000 on capital leases for equipment during the three months ended December 31, 2002. No interest was capitalized during the period. During the three months ended December 31, 2001, we incurred interest expense of approximately $51,000 on our capital equipment loans and line of credit. Interest expense for the nine months ended December 31, 2002 was $113,000. Interest expense for the nine months ended December 31, 2001 was $173,000, net of capitalized interest of $74,000 and other expense of $6,000 for currency losses. We expect interest expense to decrease in the fiscal year ending March 31, 2003 compared to the fiscal year ended March 31, 2002 as we expect to rely less on bank financing than in the past.

Income Taxes

Income tax expense totaled $11,000 for the three months ended December 31, 2002 compared to income tax expense of $25,000 for the three months ended December 31, 2001. Income tax expense in these two periods primarily relate to taxes for various state tax jurisdictions. Income tax expense totaled $24,000 for the nine months ended December 31, 2002 compared to $29,000 for the nine months ended December 31, 2001.

Liquidity and Capital Resources

As of December 31, 2002, we had $10,672,000 in cash and cash equivalents. We expect to incur substantial additional costs to support our future operations, including further commercialization of our products and development of new test methods that will allow us to expand our veterinary market and further penetrate the human diagnostic market; acquisition of capital equipment for our manufacturing facility, which includes the ongoing costs related to continuing development of our current and future products; and additional pre-clinical testing and clinical trials for our current and future products.

We anticipate that our existing capital resources, debt financing, and anticipated revenue from the sales of our products will be adequate to satisfy our currently planned operating and financial requirements through at least the next twelve months. Our future capital requirements will largely depend upon the increased market acceptance of our point-of-care blood analyzer products. However, our sales in the human medical market are not predictable due to our limited experience with our products in that market.

Net cash provided by operating activities during the nine months ended December 31, 2002 was $2,343,000 compared to net cash provided by operating activities of $1,718,000 in the nine months ended December 31, 2001. Net cash provided by operating activities was due primarily to net income of $771,000 plus depreciation and amortization of $1,224,000, a decrease of $510,000 in trade receivables and prepaid expenses and increases totaling $857,000 in accounts payable, deferred rent and accrued payroll and related expenses. These sources of cash were partially offset by increases totaling $638,000 in inventories, deposits and other assets and decreases in warranty reserve, other accrued liabilities, deferred revenue and long-term commission obligations totaling $367,000.

Net cash used in investing activities for the nine months ended December 31, 2002 was $867,000 as compared to net cash used of $562,000 for the nine months ended December 31, 2001. The increase in net cash used is due to an increase in the purchases of property and equipment.

Net cash provided by financing activities for the nine months ended December 31, 2002 was $5,098,000 as compared to net cash used of $380,000 for the nine months ended December 31, 2001. Net cash provided by financing activities for the nine months ended December 31, 2002 was primarily the result of net cash proceeds from issuance of Series E preferred stock of $6,812,000, the exercise of common stock options of $178,000, net borrowings of $1,000,000 from the line of credit, offset by dividends payable of $457,000 and repayments on the line of credit, equipment financing and lease obligations totaling $2,435,000. Net cash provided by financing activities for the nine months ended December 31, 2001 was primarily the result of proceeds from the exercise of common stock options of $379,000 and net borrowings of $600,000 from the line of credit, offset by repayments on the line of credit, equipment financing and lease obligations totaling $1,359,000.

Series E Convertible Preferred Stock – In March 2002 and April 2002, we sold 3,750 and 3,620 shares, respectively, of Series E convertible preferred stock (the "Series E Preferred") at a per share price of $1,000, resulting in aggregate net cash proceeds to us of $6,812,000. We recorded stock offering proceeds receivable of $3,446,000 for the first closing of Series E Preferred at March 31, 2002. The proceeds were received by us on April 3, 2002. The Series E Preferred is non-voting and pays an annual cumulative dividend of 6.5% of the original issue price per share, payable semiannually either in cash or shares of common stock at our election. Upon the liquidation of, dissolution of, winding-up of, or change of control in Abaxis, holders of the Series E Preferred are entitled to receive $1,000 per share, the original issue price, plus any accrued but unpaid dividends, as a liquidation preference prior to our making any distributions to holders of our common stock.

During the nine months ended December 31, 2002, certain holders of Series E Preferred converted 1,800 shares into 276,922 shares of common stock. The remaining shares of Series E Preferred automatically converts into 856,924 shares of common stock upon the earlier of: (i) the first date following March 28, 2003 on which the closing per share price of our common stock exceeds $12.00 for twenty consecutive trading days (the "Automatic Price Conversion Date"), or (ii) March 28, 2007; provided, however, that if the closing sales price of our common stock as reported on Nasdaq National Market System is less than $6.50 for each of the twenty (20) consecutive trading days immediately prior to and including March 28, 2007, then the Series E preferred stock will convert into common stock automatically upon the earlier to occur of (A) March 28, 2008, or (B) the Automatic Price Conversion Date. The shares may also be converted at the option of the holder at any time. The number of common shares into which the Series E convertible preferred stock is convertible is subject to adjustment for anti-dilution, stock splits, and other certain events.

Each Series E Preferred investor received a warrant to purchase 50 shares of common stock for each preferred share acquired. The common stock warrants are valid for five years and exercisable at $7.00 per share. Approximately $1,235,000 of the aggregate proceeds were attributed to the value of the warrants and allocated to common stock. The fair value of the warrants was determined using the Black-Scholes option-pricing model with the following assumptions: contractual life of five years, volatility of 78.6%, risk free interest rate of 4.57%-4.92% and no dividends during the contractual term. In connection with the sale of the Series E Preferred we issued to advisors for services a fully-vested warrant to purchase 113,385 shares of our common stock at an exercise price of $6.50 per share and 25,000 shares of common stock. The aggregate value of the warrant and shares of our common stock of $601,000 was recorded as a stock issuance cost. The value of the warrants was determined using the Black-Scholes option pricing model with assumptions substantially consistent with those used for valuing the warrants issued to the

investors.

In accordance with the provisions of Emerging Issues Task Force (EITF) Issue 00-27, "Application of EITF Issue No. 98-5, 'Accounting for Convertible Securities with Beneficial Conversion Features of Contingently Adjustable Conversion Ratios,' to Certain Convertible Securities," the allocated value of the Series E convertible preferred stock contained a beneficial conversion feature calculated based on the difference between the effective conversion price of the proceeds allocated to the Series E convertible preferred stock and the fair market value of the common stock at the date of issuance. Accordingly, we determined an aggregate dividend charge of $957,000 representing the value of the beneficial conversion feature.

The amounts recorded in our financial statements for the nine months ended December 31, 2002, representing the amounts attributed to the closings in April 2002, were as follows: net cash proceeds - $3,366,000 ($254,000 of issuance costs incurred), allocation to warrants issued to investors - $590,000, warrants issued to advisors for services - $361,000, and the amount of the dividend charge related to the beneficial conversion feature - $370,000.

Line of Credit and Long-Term Debt – In March 2002, we terminated certain line of credit and equipment financing loans and entered into new line of credit and equipment financing loans with Comerica Bank-California. The new line of credit provides for borrowings of up to $5,250,000, based on our outstanding accounts receivables and inventory, as defined by the bank: up to $4,000,000 is collateralized by domestic receivables and up to $1,250,000 is collateralized by foreign receivables. This new line of credit bears interest at the prime rate, which was 4.25% at December 31, 2002, and is payable monthly. Of the $4,000,000 domestic line of credit, $820,000 was committed to secure a letter of credit for our facilities lease. The domestic line of credit terminates upon notification by either party and the outstanding balance is payable upon demand. The foreign line of credit expired in September 2002 and was renewed until September 2003. The weighted average interest rate on borrowings under our line of credit facilities during the three months ended December 31, 2002 and 2001 was 4.45% and 6.16%, respectively. During the three and nine months ended December 31, 2002, we paid down $1,000,000 and $2,000,000 of our domestic line of credit. During the three months ended December 31, 2002, we borrowed $1,000,000 of our domestic line of credit. At December 31, 2002, the amount outstanding under our line of credit, which consists of both domestic and foreign borrowings, was $1,000,000 and $2,997,000 was available for additional borrowings.

The balance of the new equipment financing loan at December 31, 2002 was $1,050,000. The equipment loan bears interest at the prime rate plus 1%, which was 5.25% at December 31, 2002, and is payable in monthly installments of principal and interest totaling approximately $42,000 over a period of three years. The weighted average interest rate on equipment financing loans during the three months ended December 31, 2002 and 2001 was 5.45% and 6.66%, respectively.

The line of credit and equipment financing agreements contain certain financial covenants, which are evaluated on a quarterly basis. Included in these financial covenants, among other stipulations, is a requirement that we have a minimum net income of $25,000 before preferred stock dividends and accretion in any three quarters of a fiscal year, provided that any loss before preferred stock dividends and accretion incurred in the remaining quarter is not to exceed $250,000. We are also required to be profitable, as defined, on a fiscal year to date basis beginning with the six month period ending September 30 and to have net income before preferred stock dividends and accretion on preferred stock of $1,150,000 for the fiscal year ending March 31, 2003. In addition, we are required to have a minimum liquidity coverage, as defined, of not less than 1.25 to 1.00, cash flow coverage, as defined, of not less than 1.20 to 1.00, debt to net worth ratio, as defined, not greater than 1.00 to 1.00 and to maintain a tangible effective net worth, as defined, of not less than $15,000,000 to be increased by 100% of any net equity capital raised and a minimum of 50% of net income. At December 31, 2002, we were in compliance with all of these covenants.

Borrowings under the line of credit and equipment financing loans are secured by a pledge of our net book value of assets of $24.8 million at December 31, 2002 including our intellectual property.

Critical Accounting Policies – We have identified certain accounting policies as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to the identified critical accounting policies on our business operations are discussed in our amended Annual Report on Form 10-K/A for the fiscal year ended March 31, 2002 filed with the Securities and Exchange Commission on December 24, 2002.

Contingencies – On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringed on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In May 2002, we entered

into an agreement with S.A. Scientific under which we agreed to joint representation by counsel to defend against the legal action filed by Idexx. On December 6, 2002, S.A. Scientific and us entered into a settlement agreement with Idexx under which, among other terms, we agreed to pay Idexx $249,500 in cash damages and to cease selling the particular canine heartworm antigen test referenced in the complaint. We intend to develop and introduce another canine heartworm antigen test in the near future and there can be no assurance that Idexx will not claim infringement under the patents previously enforced against or upon other grounds. We would incur expenses in the defense of such claims and our attention could be diverted from our operations.

New Accounting Pronouncements – In September 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of long-lived assets and the associated asset retirement costs. We adopted SFAS No. 143 effective April 1, 2002. The adoption of SFAS No. 143 did not have a significant impact on our financial position or result of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. We adopted SFAS No. 144 effective April 1, 2002. The adoption did not have a significant impact on our financial position or result of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 generally requires that any gains or losses on extinguishment of debt in current or prior periods be classified as other income (expense). We adopted SFAS No. 145 effective April 1, 2002. The adoption did not have a significant impact on our financial position or result of operations.

In June 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. We will adopt the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of our commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 amends FASB Statement No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements of the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for fiscal years beginning after December 15, 2002. The Company intends to adopt the disclosure provisions of SFAS No. 148 on January 1, 2003. The Company does not expect to change to using the fair value based method of accounting for stock-based employee compensation; and therefore, adoption of SFAS No. 148 is not expected to have an impact on the financial position, results of operations or cash flows of the Company.

FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee.

RISK FACTORS THAT MAY AFFECT OUR PERFORMANCE

Our future performance is subject to a number of risks. If any of the following risks actually occur, our business could be harmed and the trading price of our common stock could decline. You should also refer to other information contained in our annual report for the fiscal year ended March 31, 2002, as amended, as filed on Form

10-K/A on December 24, 2002, including the financial statements included therein and the notes related thereto.

When used in these risk factors, the words "anticipates," "believes," "expects," "intends," "plans," "future," and similar expressions identify forward-looking statements. Our actual results could differ materially from those that we project in the forward-looking statements as a result of factors that we have set forth throughout this document as well as factors of which we are currently not aware.

We Are Not Consistently Profitable; We Must Increase Sales Of Our Piccolo And Vetscan DXS Products To Maintain Consistent Profitability

We recognized a net loss in two of the last twelve calendar quarters ended December 31, 2002 before accounting for dividend charges associated with the issuance of our preferred stock and non-cash charges related to the beneficial conversion feature contained in the preferred stock. After accounting for such charges, we recognized a net loss in six of those quarters. Although we realized net income before dividends for the quarters ended June 30, September 30, and December 31, 2002 and all quarters in the fiscal year that ended March 31, 2002, there can be no assurance that we will experience profitability in the future. As of December 31, 2002, we have incurred cumulative net losses of approximately $62 million. Our ability to be consistently profitable will depend, in part, on our ability to increase our sales volumes of our VetScan DXS and Piccolo products. Increasing our sales volume of our products will depend upon our ability to:

- continue to develop our products;
- increase our sales and marketing activities;
- increase our manufacturing activities; and
- effectively compete against current and future competitors.

We cannot assure you that we will be able to successfully increase our sales volumes of our products to achieve sustained profitability.

We Are Not Able To Predict Sales In Future Quarters And A Number Of Factors Affect Our Periodic Results

We are not able to accurately predict our sales in future quarters. In any quarter, we derive approximately 50% of our revenues from two distributors who resell our products to the ultimate user. While we are better able to predict sales of our reagent discs, as we sell these discs primarily for use with analyzers that we sold in prior periods, we generally are unable to predict with much certainty sales of our analyzers, as we typically sell our analyzers to new users. Accordingly, our sales in any one quarter are not indicative of our sales in any future period. In addition, we generally operate with limited order backlog, because we ship our products shortly after we receive the orders from our customers. As a result, our product sales in any quarter are generally dependent on orders that we receive and ship in that quarter. We base our expense levels, which are to a large extent fixed, in part on our expectations as to future revenues. We may be unable to reduce our spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any such shortfall would immediately materially and adversely impact our operating results and financial condition. In addition, we have historically experienced a decrease in our sales, especially in Europe, in our second and third quarters, ending in September and December of each year, which we believe is due to seasonal patterns in the decision making processes to acquire our products. Accordingly, we believe that period to period comparisons of our results of operations are not necessarily meaningful.

Our periodic operating results have varied in the past. In the future, we expect our periodic operating results to vary significantly depending on, but not limited to, a number of factors, including, in addition to those factors discussed elsewhere in this section:

- new product announcements made by us or our competitors;
- changes in our pricing structures or the pricing structures of our competitors;
- our ability to develop, introduce and market new products on a timely basis;
- our manufacturing capacities and our ability to increase the scale of these capacities;

- the mix of product sales between our analyzer and our reagent disc products;
- the amount we spend on research and development; and
- changes in our strategy.

We Could Fail To Achieve Anticipated Revenue If The Market Does Not Accept Our Products

Our core compact blood analyzer product differs substantially from current blood analyzers on the market. Our primary competition is from centralized laboratories that offer a greater number of tests than our products, but do so at greater cost and requiring more time. We also compete with other point-of-care analyzers that cost more, require more maintenance and offer a narrower range of tests. However, these point-of-care analyzers are generally marketed by larger companies which have greater resources for sales and marketing, in addition to a recognized brand name and established relationships.

Historically we have marketed our VetScan analyzer to veterinarians and we have limited experience in large scale sales of our Piccolo analyzer into the human market. We continue to develop new animal blood tests that we cannot be assured will be accepted by the veterinarian market. Although we believe that our blood analyzers offer consumers many advantages, including according to our analyses substantial cost savings, in terms of the actual product and implementation of it procedurally, these advantages involve changes to current standard practices, such as using large clinical laboratories, that will require changes in both the procedures and mindset of care providers. The human medical market in particular is highly regulated, structured and often slow to change. If we are unable to convince large numbers of medical clinics, hospitals and other points-of-care of the benefits of our products, we will suffer lost sales and could fail to achieve anticipated revenue.

We are Dependent Upon Our Profitability, and If We Cannot Remain Profitable We May Need Additional Funding In The Future And These Funds May Not Be Available To Us

We believe that our existing capital resources, bank and equipment financing loans and anticipated revenue from the sales of our products will be adequate to satisfy our currently planned operating and financial requirements through fiscal year 2004, although no assurances can be given. Our bank financing documents contain a number of covenants concerning financial tests that we must meet that are more fully detailed in the agreements that we have filed with the SEC as exhibits to our periodic reports. We may need additional funds if we are unable to meet requirements for continuing access to bank financing or if we do not achieve anticipated revenues from the sale of our Piccolo and VetScan DXS products.

Further, we expect to incur substantial additional costs to support our future operations, including:

- further commercialization of our products and development of new test methods to allow us to further penetrate the human diagnostic market and the veterinary diagnostic market;
- our need to acquire capital equipment for our manufacturing facilities, which includes the ongoing implementation of our semi-automated manufacturing lines to provide capacity for the production of commercial volumes of our products;
- research and design costs related to the continuing development of our current and future products; and
- additional pre-clinical testing and clinical trials for our current and future products.

To the extent that our existing resources and anticipated revenue from the sale of our products are insufficient to fund our activities or if we are unable to meet the financial tests contained in our bank financing documents, we may have to raise additional funds from the issuance of public or private securities. In the event that we cannot maintain compliance with the financial covenants of our bank financing agreements, we may also be subject to increased interest rate expenses. We may not be able to raise additional funding, or if we are able to, we may not be able to raise funding on acceptable terms. We may also dilute then-existing shareholders if we raise additional funds by issuing new equity securities. Alternately, we may have to relinquish rights to certain of our technologies, products and/or sales territories if we are required to obtain funds through arrangements with collaborative partners. If we are unable to raise needed funds, we may be required to curtail our operations significantly. This would materially adversely affect our operating results and financial condition.

We Recently Settled a Patent Infringement Lawsuit And We Could Be the Subject of Similar Legal Action in

the Future

On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringed on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In May 2002, we entered into an agreement with S.A. Scientific under which we have agreed to joint representation by counsel to defend against the legal action filed by Idexx. On December 6, 2002, the parties entered into a settlement agreement under which, among other terms, we will pay Idexx $249,500 in cash damages and we have agreed to cease the selling of the particular canine heartworm antigen test. We intend to develop and introduce another canine heartworm antigen test in the near future and there can be no assurance that Idexx will not claim infringement under the patents previously enforced against or upon other grounds. We would incur expenses in the defense of such claims and our attention could be diverted from our operations.

We Rely On Patents And Other Proprietary Information, The Loss Of Any Of Which Would Negatively Affect Our Business

As of December 31, 2002, we have filed 25 patent applications in the United States and have been issued 23 patents. Additionally, we have filed several international patent applications covering the same subject matter as our domestic applications. The patent position of any medical device manufacturer, including Abaxis, is uncertain and may involve complex legal and factual issues. Consequently, we may not be issued any additional patents, either domestically or internationally. Furthermore, our patents may not provide significant proprietary protection because there is a chance that they will be circumvented or invalidated. We cannot be certain that we were the first creator of the inventions covered by our issued patents or pending patent applications, or that we were the first to file patent applications for these inventions, because (1) the United States Patent and Trademark Office maintains all patent applications in secrecy until it issues the patents and (2) publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months. We may have to participate in interference proceedings, which are proceedings in front of the U.S. Patent and Trademark Office, to determine who will be issued a patent. These proceedings could be costly and could be decided against us.

We also rely upon copyrights, trademarks and unpatented trade secrets. Others may independently develop substantially equivalent proprietary information and techniques that would undermine our proprietary technologies. Further, others may gain access to our trade secrets or disclose such technology. Although we require our employees, consultants and advisors to execute agreements that require that our corporate information be kept confidential and that any inventions by these individuals are property of Abaxis, there can be no assurance that these agreements will provide meaningful protection or adequate remedies for our trade secrets in the event of unauthorized use or disclosure of such information. The unauthorized dissemination of our confidential information would negatively impact our business.

We Have Limited Marketing And Distribution Experience And Few Resources To Devote To Marketing And Distribution

We have been marketing our VetScan System products for less than seven years in the veterinary diagnostic market, and we have less than six years in marketing the Piccolo System in the human diagnostic market. We have only begun marketing our VetScan HMT products in the veterinary diagnostic market since fiscal 2001. Accordingly, we have very limited sales, marketing and distribution experience, especially in the human diagnostic market. We cannot assure you that:

- we will be able to establish and maintain effective distribution arrangements;
- any distribution arrangements that we are able to establish will be successful in marketing our products; or
- the costs associated with marketing and distributing our products will not be excessive.

Should we fail to effectively develop our marketing and distribution efforts, our growth will be limited and our results of operations will be adversely affected.

Many of Our Sales Force Have Been Employed by Us for Less Than One Year And We Must Effectively Train And Integrate Our Sales Team In Order To Achieve Our Anticipated Revenue

We have twenty-seven full-time sales personnel involved in our sales and marketing activities, many of

whom have been employed by us for a limited period of time. While these individuals work with our distribution partners both domestically and internationally to extend our market reach, the primary selling activities are often done by these individuals. If we are to increase our sales, we will need to train new salespeople and supervise them closely. We also will continue hiring additional sales personnel. If we are unable to retain our existing personnel, or attract and train additional qualified personnel, our growth may be limited due to our lack of capacity to market our products.

We Need to Successfully Manufacture and Market Additional, Recently Approved Reagent Discs For The Human Diagnostic Market If We Are To Compete In That Market

We have developed a blood analysis system that consists of a portable blood analyzer and single-use reagent discs. Each reagent disc performs a series of standard blood tests. We believe that it is necessary to develop additional series of reagent discs with various tests for use with the Piccolo and VetScan DXS. Historically, we primarily developed reagent discs suitable for the veterinary diagnostic market. We recently received approval from the U.S. Food and Drug Administration to begin selling additional tests, namely HDL and triglycerides, for the more lucrative human diagnostic market. These tests are included in standard tests for which the medical community receives reimbursements from third party payors such as HMOs and Medicare. We may not be able to successfully manufacture or market these newly developed reagent discs. Our failure to meet these challenges will materially adversely affect our operating results and financial condition.

We Rely On Distributors To Sell Our Products; We Rely On Sole Distributor Arrangements In A Number Of Countries

We distribute our products primarily through distributors. As a result, we are dependent upon these distributors to sell our products and to assist us in promoting and creating a demand for our products. We have a number of distributors in the United States who distribute our VetScan DXS products. Two distributors, Vedco Inc. and DVM Resources accounted for 40% and 10%, respectively, of total revenues for the three-month period ended December 31, 2002. Vedco Inc. and DVM Resources accounted for 37% and 10%, respectively, of total revenues for the nine-month period ended December 31, 2002. We believe that our future growth depends on the efforts of these distributors. If one of our distributors, particularly Vedco, Inc., were to stop selling our products we may not be able to replace such lost revenue. We operate on a purchase order basis with Vedco, Inc. and DVM Resources and each of these distributors is under no contractual obligation to continue carrying our products. Further, many of our distributors may carry our competitors' products, and may promote our competitors' products over our own products. Finally, we do not have at this time distribution partners in the United States or overseas who distribute our products for the human diagnostic market.

We currently have exclusive distribution agreements for our VetScan DSX products in Argentina, Australia, Austria, Bahrain, China, Greece, Korea, Mexico, New Zealand, Portugal, South Africa, Spain, Switzerland, United Arab Emirates and the United Kingdom. Our distributor in each of these countries is responsible for obtaining the necessary approvals to sell our products. These distributors may not be successful in obtaining proper approvals for our products in their respective countries, and they may not be successful in marketing our products. We plan to enter into additional distribution agreements to expand our international distribution base and solidify our international presence. However, we may not be successful in entering into additional distributor agreements. Our distributors may terminate their relationship with us at any time. Historically, we have experienced a high degree of turnover among our international distributors. This high degree of turnover makes it difficult for us to establish a steady distribution network overseas. Consequently, we may not be successful in marketing our Piccolo System and VetScan DXS products internationally.

We Depend On Sole Suppliers For Several Key Components To Our Products, Many of Whom We Have Not Entered Into Contractual Relationships With

We use several key components that are currently available from limited or sole sources as discussed below:

- *Reagent Discs:* Two injection molding manufacturers, C. Brewer & Co. and Nypro Oregon, Inc., currently make the molded plastic discs which, when loaded with reagents and welded together, form our reagent disc products. We believe that only a few manufacturers are capable of producing these discs to the narrow tolerances that we require; to date, we have only qualified these two manufacturers, with Nypro Oregon, Inc. being qualified at two separate facilities, to manufacture the molded plastic discs.

- *Reagent Chemicals:* We currently depend on the following single source vendors for some of the chemicals

that we use to produce the dry reagent chemistry beads that are either inserted in our reagent discs or sold as a stand-alone product: Amano Enzyme USA Co., Ltd., Biozyme Labs International Ltd., Genzyme Corporation, Kikkoman Corporation Biochemical Division, Lee Biosolutions, Inc., the Diagnostic Systems and Molecular Biochemicals divisions of F. Hoffman-La Roche, Ltd., Shinko American Inc., Sigma Aldrich Inc. and Worthington Biochemical Corporation.

- *Blood Analyzer Components:* Our analyzer products use several technologically advanced components that we currently purchase from two single source vendors, PerkinElmer, Inc. and Electro-Alliance, Inc. Our analyzers use a printer that is only made by Sanyo North America Corporation. The loss of the supply of any of these components could force us to redesign our analyzers.

- *Hematology Instrument and Reagents:* We currently purchase HMT instruments and reagents from MELET SCHLOESING Laboratories (MELET) of France.

- *Canine Heartworm Antigen Test:* We intend to develop and release a canine heartworm antigen test to be supplied to us by S.A. Scientific, Inc., with whom we were recently a co-defendant in patent litigation.

We operate on a purchase order basis with all of the suppliers of our molded plastic reagent disks, reagent chemicals, and blood analyzer components and thus these suppliers are under no contractual obligation to supply us with their products or to do so at specified prices. Although we believe that there are potential alternate suppliers available for these critical components, to date we have not qualified additional vendors beyond those referenced above.

Because we are dependent on a limited number of suppliers and manufacturers for critical components to our products, we are particularly susceptible to any interruption in the supply of these products or the viability of our assembly arrangements. The loss of any one of these suppliers or a disruption in our manufacturing arrangements could materially adversely affect our business and financial condition.

We Compete With Larger, Better Established Entities Such As Hospitals And Commercial Laboratories

Blood analysis is a well established field in which there are a number of competitors that have substantially greater financial resources and larger, more established marketing, sales and service organizations than we do. We compete with the following organizations:

- commercial clinical laboratories;

- hospitals' clinical laboratories; and

- manufacturers of bench top multi-test blood analyzers and other testing systems that health care providers can use "on-site."

We May Not Be Able To Compete With These Organizations Or Their Products Or With Future Organizations Or Future Products

Historically, hospitals and commercial laboratories perform the most human medical testing, and commercial laboratories perform the most veterinary medical testing. We have identified five principal factors that customers typically use to evaluate our products and those of our competitors. These factors are:

- range of tests offered;

- the immediacy of results;

- cost effectiveness;

- ease of use; and

- reliability of results.

We believe that we compete effectively on each of these factors except for the range of tests offered. Clinical laboratories are effective at processing large panels of tests using skilled technicians and complex equipment. While our current offering of reagent discs cannot provide the same broad range of tests, we believe that

in certain limited markets our products provide a sufficient breadth of test menus to compete successfully with clinical laboratories given the advantages of our products with respect to the other four factors. However, we cannot assure you that we will continue to be able to compete effectively on cost effectiveness, ease of use, immediacy of results or reliability of results. We also cannot assure you that we will ever be able to compete effectively solely on the basis of range of tests offered.

Competition in the human and veterinary diagnostic markets is intense. Our principal competitors in the human blood-analyzer market are Alfa Wassermann S.P.A., Agilent Technologies, Inc., Careside, Inc., Dade Behring, Inc., Elan Diagnostics, Inc., Johnson & Johnson (including its subsidiary, Ortho-Clinical Diagnostics, Inc.) and i-STAT Corporation. Our principal competitors in the veterinary blood-analyzer market are Idexx Laboratories, Inc. and Heska Corporation. Most of our competitors have significantly greater financial and other resources than we do. In particular, many of our competitors have large sales forces and well-established distribution channels. Consequently, we must develop our distribution channels and improve our direct sales force in order to compete in these markets.

Changes In Third Party Payor Reimbursement Regulations Can Negatively Affect Our Business

By regulating the maximum amount of reimbursement they will provide for blood testing services, third party payors, such as HMOs, pay-per-service insurance plans, Medicare and Medicaid, can indirectly affect the pricing or the relative attractiveness of our human testing products. For example, the Health Care Financing Administration sets the level of reimbursement of fees for blood testing services for Medicare beneficiaries. If third party payors decrease the reimbursement amounts for blood testing services, it may decrease the amount that physicians and hospitals are able to charge patients for such services. Consequently, we will need to charge less for our products. If the government and third party payors do not provide for adequate coverage and reimbursement levels to allow health care providers to use our products, the demand for our products will decrease.

We Are Subject To Numerous Governmental Regulations

- ***Need for FDA Certification for Our Medical Device Products***

Our Piccolo products are regulated under the 1976 Medical Device Amendments to the Food, Drug and Cosmetic Act, which is administered by the Food and Drug Administration. The FDA classified our initial Piccolo products as "Class II" devices. Class II devices require us to submit to the FDA a pre-market notification form or 510(k). The FDA uses the 510(k) to substantiate product claims that are made by medical device manufacturers prior to marketing. In our 510(k) notification, we must, among other things, establish that the product we plan to market is "substantially equivalent" to (1) a product that was on the market prior to the adoption of the 1976 Medical Device Amendment or (2) to a product that the FDA has previously cleared under the 510(k) process. The FDA review process of a 510(k) notification can last anywhere from three months to over a year, and the FDA must issue a written order finding "substantial equivalence" before a company can market a medical device. To date, we have received market clearance from the FDA for our Piccolo System and 25 reagent tests that we have on eight reagent discs. We are currently developing additional tests that the FDA will have to clear through the 510(k) notification procedures. These new test products are crucial for our success in the human diagnostic market. If we do not receive 510(k) clearance for a particular product, we will not be able to sell that product in the United States.

- ***Need to Comply with Manufacturing Regulations***

The 1976 Medical Device Amendment also requires us to manufacture our Piccolo products in accordance with Good Manufacturing Practices guidelines. Current Good Manufacturing Practice requirements are set forth in the quality system regulation. These requirements regulate the methods used in, and the facilities and controls used for, the design, manufacture, packaging, storage, installation and servicing of our medical devices intended for human use. Our manufacturing facility is subject to periodic audits. In addition, various state regulatory agencies may regulate the manufacture of our products. For example, we have obtained a license from the State of California to manufacture our products. In September 1996, the FDA granted our manufacturing facility "in compliance" status, based on the regulations for Good Manufacturing Practices for medical devices. We are scheduled for inspection by the FDA and the State of California on a routine basis, typically once every 24 months. The most recent inspection was by the State of California in April 2001 with licensing for the new Union City facility granted in early May 2001. We cannot assure you that we will successfully pass a re-inspection by the FDA or the State of California. In addition, we cannot assure you that we can comply with all current or future government manufacturing requirements and regulations. If we are unable to comply with the regulations, or if we do not pass routine inspections, our business and results of operations will be materially adversely affected.

- ***Effects of the Clinical Laboratory Improvement Amendments on Our Products***

Our Piccolo products are affected by the Clinical Laboratory Improvement Amendments of 1988. The Clinical Laboratory Improvement Amendments are intended to insure the quality and reliability of all medical testing in the United States regardless of where tests are performed. The current Clinical Laboratory Improvement Amendments divide laboratory tests into three categories: "simple," "moderately complex" and "highly complex." Tests performed using the Piccolo system are in the "moderately complex" category. This category requires that any location in which testing is performed be certified as a laboratory. Hence, we can only sell our Piccolo products to customers who meet the standards of a laboratory. To receive "laboratory" certification, a testing facility must be certified by the Health Care Financing Administration. After the testing facility receives a "laboratory" certification, it must then meet the Clinical Laboratory Improvement Amendments regulations. Because we can only sell our Piccolo products to testing facilities that are certified "laboratories," the market for our products is correspondingly constrained. Consequently, the market for our Piccolo products will be confined to those testing facilities that are certified as "laboratories" and our growth will be limited accordingly.

- ***We Are Subject to Various Federal, State and Local Regulations***

Federal and state regulations regarding the manufacture and sale of health care products and diagnostic devices may change. We cannot predict what impact, if any, such changes would have on our business. In addition, as we continue to sell in foreign markets, we may have to obtain additional governmental clearances in those markets. We may not be able to obtain regulatory clearances for our products in the United States or in foreign markets, and the failure to obtain these regulatory clearances will materially adversely affect our business and results of operations.

Although we believe that we will be able to comply with all applicable regulations of the Food and Drug Administration and of the State of California, including Quality System Regulations, current regulations depend on administrative interpretations. Future interpretations made by the Food and Drug Administration, the Health Care Finance Administration or other regulatory bodies may adversely affect our business.

We Depend On Key Members Of Our Management And Scientific Staff, And We Must Retain And Recruit Qualified Individuals If We Are To Be Competitive

We are highly dependent on the principal members of our management and scientific staff. The loss of any of these key personnel, including in particular Clinton H. Severson, our President, Chief Executive Officer and Chairman of our Board of Directors, might impede the achievement of our business objectives. Mr. Severson's amended and restated employment agreement with us was filed with the SEC on August 14, 2001 as an exhibit to our quarterly report for the quarter ended June 30, 2001. We are not aware of any member of our executive management team who intends to retire within one year of the date of this filing. We currently do not maintain key man life insurance on any of our employees. Although historically we have been relatively successful both in retaining our current management and scientific staff and attracting and retaining skilled and experienced marketing, sales and manufacturing personnel, we may not be able to employ such personnel on acceptable terms in the future because numerous medical products and other high technology companies compete for the services of these qualified individuals.

We May Inadvertently Produce Defective Products, Which May Subject Us to Significant Warranty Liabilities or Product Liability Claims And We May Have Insufficient Product Liability Insurance

Our business involves applying sophisticated methods to raw materials and producing defect-free medical test equipment. Although we have established procedures for quality control on both the raw materials that we receive from suppliers and our manufactured final products, these procedures may prove inadequate to detect a defect that either occurs in limited quantities or that we have not anticipated. Should we inadvertently ship defective products, we may be subject to substantial claims under our warranty policy. Further, our business exposes us to potential product liability risks, which are inherent in the testing, manufacturing and marketing of human and veterinary medical products. We currently maintain product liability insurance. We believe that this insurance is adequate for our needs, taking into account the risks involved and cost of coverage. However, our product liability insurance may be insufficient to cover potential liabilities. In addition, in the future the coverage that we require may be unavailable on commercially reasonable terms, if at all. Even with our current insurance coverage, a mass product defect, product liability claim or recall could materially adversely affect our business or our financial

condition.

Legislative Actions, Higher Insurance Cost And Potential New Accounting Pronouncements Are Likely To Cause Our General And Administrative Expenses To Increase And Impact Our Future Financial Position And Results Of Operations

In order to comply with the newly adopted Sarbanes-Oxley Act of 2002, as well as proposed changes to listing standards by Nasdaq, and proposed accounting changes by the Securities and Exchange Commission, we may be required to increase our internal controls, hire additional personnel and utilize additional outside legal, accounting and advisory services, all of which will cause our general and administrative costs to increase. Insurers are also likely to increase premiums as a result of the high claims rates incurred over the past year, and so our premiums for our various insurance policies, including our directors' and officers' insurance policies, are likely to increase. Proposed changes in the accounting rules, including legislative and other proposals to account for employee stock options as a compensation expense among others, could materially increase the expenses that we report under generally accepted accounting principles and adversely affect our operating results.

We Must Comply With Strict And Costly Environmental Regulations

We are subject to stringent federal, state and local laws, rules, regulations and policies that govern the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. In particular, we are subject to laws, rules and regulations governing the handling and disposal of biohazardous materials used in the development and testing of our products. We handle and dispose of human and veterinary blood samples for testing (whole blood, plasma, serum) and we pay approximately $40,000 per year to comply with applicable environmental regulations. Although we believe that we have complied with applicable laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, we may have to incur significant costs to comply with environmental regulations if our manufacturing to commercial levels continues to increase. In addition, if a government agency determines that we have not complied with these laws, rules and regulations, we may have to pay significant fines and/or take remedial action that would be expensive and we do not carry environmental-related insurance coverage.

System Failures Or Delays May Harm Our Business And Our Facilities And Manufacturing Operations Are Vulnerable To Natural Disasters And Other Unexpected Losses

Our success depends on the efficient and uninterrupted operation of our manufacturing operations, which are co-located with our corporate headquarters in Union City, California. A failure of manufacturing operations, be it in the development and manufacturing of our VetScan or Piccolo analyzers or the reagent discs used in the analyzers could result in our inability to supply customer demand.

We do not have a backup facility to provide redundant manufacturing capacity in the event of a system failure. Accordingly, if our Union City location experienced a system failure, or regulatory problem that temporarily shut-down our manufacturing facility, our manufacturing ability would become unavailable until we were able to bring an alternative facility online, a process which could take several weeks or even months. These manufacturing operations are also vulnerable to damage from fire, floods, earthquakes, power loss, telecommunications failures, break-ins and similar events. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur. Additionally, our computer servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions.

Fluctuations In Foreign Exchange Rates And The Possible Lack Of Financial Stability In Foreign Countries Could Prevent Overseas Sales Growth

Our international sales are overwhelmingly currently U.S. dollar-denominated. As a result, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. For the limited amount of our sales denominated in local currencies, we are subject to fluctuations in exchange rates between the U.S. dollar and the particular local currency. Our operating results could also be adversely affected by the seasonality of international sales and the economic conditions of our overseas markets.

Our Stock Price Is Highly Volatile And Investing In Our Stock Involves A High Degree Of Risk

The market price of our common stock, like the securities of many other medical products companies, fluctuates over a wide range, and will continue to be highly volatile in the future. During the past two fiscal years, our stock price traded at a high of $8.06 on April 6, 2000 and a low of $2.69 on April 5, 2001. The following factors may affect the market price of our common stock:

- fluctuation in our operating results;
- announcements of technological innovations or new commercial products by us or our competitors;
- changes in governmental regulation;
- prospects and proposals for health care reform;
- governmental or third party payors' controls on prices that our customers may pay for our products;
- developments or disputes concerning patent or our other proprietary rights;
- public concern as to the safety of our devices or similar devices developed by our competitors; and
- general market conditions.

Because our stock price is so volatile, investing in our common stock is highly risky. A potential investor must be able to withstand the loss of his entire investment in our common stock.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks with respect to interest rates on our accounts receivable line of credit, long-term debt and cash equivalent investments.

For our accounts receivable line of credit, the interest rate is equal to the prime rate. Consequently, an increase in the prime rate would expose us to higher interest expenses. The balance on our accounts receivable line of credit was $1,000,000 as of December 31, 2002. Based on this balance, for each 1% increase in the prime rate, we would pay approximately $2,500 of additional interest each quarter.

For our long-term debt, which is our equipment loan, the interest rate is equal to 1.0% over the prime rate. As with our accounts receivable credit facility, any increase in interest rates would expose us to higher interest expenses. The balance on our long-term debt was $1,050,000 as of December 31, 2002. Based on this balance, for each 1% increase in the prime rate, we would pay a total of approximately $2,600 of additional interest each quarter.

All of our sales are denominated in US dollars, except for sales under our OEM agreement to provide VetScan systems to MELET which are denominated in Euros. Sales to MELET during the three months ended December 31, 2002 were less than 3% of our total revenues. At December 31, 2002, the net receivable from Melet was $27,000.

As a matter of management policy, we do not currently enter into transactions involving derivative financial instruments. In the event we do enter into such transactions in the future, such items will be accounted for in accordance with Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” in which case we will formally document all relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking such hedge transactions.

Item 4. Controls and Procedures

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended, within the 90 day period prior to the filing date of this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of that date.

(b) There have been no significant changes (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation referenced in paragraph (a) above.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in various litigation matters in the normal course of business. Except for the lawsuit discussed below and for which a settlement agreement was reached in December 2002, we believe that the ultimate resolution of these matters will not have a material effect on our financial position or results of operations.

On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringed on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In May 2002, we entered into an agreement with S.A. Scientific under which we have agreed to joint representation by counsel to defend against the legal action filed by Idexx. On December 6, 2002, S.A. Scientific, Inc and us entered into a settlement agreement with Idexx under which, among other terms, we agreed to pay Idexx $249,500 in cash damages and to cease the selling of the particular canine heartworm antigen test referenced in the complaint. We intend to develop and introduce another canine heartworm antigen test in the near future and there can be no assurance that Idexx will not claim infringement under the patents previously enforced against us or upon other grounds.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

On October 22, 2002, we held our 2002 Annual Meeting of Shareholders (the "Annual Meeting"). At the Annual Meeting, all five of the director nominees eligible for re-election were re-elected for one-year terms to the Board of Directors and an increase of 500,000 shares for shares reserved under the Abaxis 1998 Stock Option Plan was approved. However, Abaxis' reincorporation into Delaware, along with associated changes in Abaxis' certificate of incorporation and bylaws, was not approved.

On November 7, 2002, our Board of Directors amended our Bylaws to increase the size of the Board from six to seven members. Concurrently, the Board of Directors appointed Henk J. Evenhuis to fill the newly created vacancy on the Board and in addition appointed Mr. Evenhuis to the audit committee of the Board. Mr. Evenhuis served from 1999 to 2002 as Vice President and Chief Financial Officer of Fair Isaac &. Co. (NYSE: FIC), a developer of credit scoring systems and analytical technology, and from 1987 to 1997 as Executive Vice President and Chief Financial Officer of Lam Research Corporation (Nasdaq: LRCX), a semiconductor equipment company. On January 28, 2003, Mr. Evenhuis was unanimously elected by the Board of Directors as Chairman of the Audit Committee.

Also on January 28, 2003, the Board of Directors amended our Bylaws to include certain provisions regarding advance notice requirements for the presentation of shareholder business and director nominations before annual and special meetings of shareholders. Our Bylaws, as amended and in their entirety, are attached as Exhibit 3.2 and are incorporated herein by reference.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits included herein (numbered in accordance with Item 601 of Regulation S-K)

Exhibit Number	Description
3.2	Bylaws, as amended

10.34	Distribution Agreement by and between Abaxis and Melet Schloesing Laboratories, dated March 11, 1999 (1)
10.36	Third Modification and Addendum to Loan and Security Agreement with Comerica Bank - California dated October 21, 2002
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

(1) Confidential treatment has been applied to the SEC for portions of this exhibit. This exhibit was first filed by Abaxis on December 24, 2002 as an exhibit to Abaxis' Annual Report, as amended, on Form 10-K/A and is hereby re-filed in its entirety with certain previously redacted terms included herein.

(b) Reports on Form 8-K

On December 11, 2002, we filed a Current Report on Form 8-K to announce that we reached an out-of-court settlement with IDEXX Laboratories, Inc. ("IDEXX") with respect to IDEXX' patent infringement lawsuit concerning the sale and manufacturing of a canine heartworm test kit manufactured by Abaxis partner and co-defendant S.A. Scientific, Inc., a privately held company located in San Antonio, Texas ("SAS") and sold by Abaxis. Accordingly, on December 10, 2002, the lawsuit was dismissed in the United States District Court for the District of Maine.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABAXIS, INC.

(Registrant)

Date: February 12, 2003

By: /s/ Clinton H. Severson

Clinton H. Severson

President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: February 12, 2003

By: /s/ Alberto R. Santa Ines

Alberto R. Santa Ines

Chief Financial Officer and Vice President of Finance (Principal Financial and Accounting Officer)

CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Clinton H. Severson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Abaxis, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

/s/ Clinton H. Severson
Clinton H. Severson
President and
Chief Executive Officer

I, Alberto R. Santa Ines, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Abaxis, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 12, 2003

/s/ Alberto R. Santa Ines
Alberto R. Santa Ines
Chief Financial Officer and
Vice President, Finance

BY-LAWS

OF

ABAXIS, INC.

ARTICLE I

OFFICES

Section 1.1 Principal Executive Office.

The principal executive office for the transaction of the business of the corporation is hereby fixed and located at 265 North Whisman Avenue, Mountain View, County of Santa Clara, State of California. The Board of Directors is hereby granted full power and authority to change said principal office from one location to another.

Section 1.2 Other Offices.

Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the corporation is qualified to do business.

ARTICLE II

MEETINGS OF SHAREHOLDERS

Section 2.1 Place of Meetings.

All meetings of shareholders shall be held either at the principal executive office or at any other place within or without the State of California which may be designated either by the Board of Directors or by the written consent of a majority of the shareholders entitled to vote thereat as determined pursuant to Section 6.1 of these By-Laws given either before or after the meeting.

Section 2.2 Annual Meetings.

The annual meetings of shareholders shall be held on such day and at such hour as may be fixed by the Board of Directors. At such meeting, Directors shall be elected, and any other proper business may be transacted.

Section 2.3 Special Meetings.

Special meetings of the shareholders may be called at any time by the Board of Directors, the Chairman of the Board, the President, or by the holders of shares entitled to cast not less than ten percent (10%) of the votes at the meeting. Notice of such special meeting shall be given in the same manner as for the annual meeting of shareholders. Notices of any special meetings shall specify in addition to the place, date and hour of such meeting, the general nature of the business to be transacted thereat.

Section 2.4 Notice of Meetings or Reports.

Written notice of each meeting of shareholders shall be given not less than ten (10) days nor more than sixty (60) days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall be given either personally or by mail or other means of written communication, addressed or delivered to each shareholder entitled to vote at such meeting at the address of such shareholder appearing on the books of the corporation or given by him to the corporation for the purpose of such notice. If no such address appears or is given, notice shall be given either personally or by mail or other means of written communication addressed to the shareholder at the place where the principal executive office of the corporation is located, or by publication at least once in a newspaper of general circulation in the county in which said office is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication.

The same procedure for the giving of notice shall apply to the giving of any report to shareholders.

All such notices shall state the place, the date and the hour of such meeting, and shall state such matters, if any, as may be expressly required by the California Corporations Code.

Upon request by any person or persons entitled to call a special meeting, the Chairman of the Board, President, Vice President or Secretary shall within twenty (20) days after receipt of the request cause notice to be given to the shareholders entitled to vote that a special meeting will be held at a time requested by the person or persons calling the meeting, but not less than thirty-five (35) nor more than sixty (60) days after receipt of the request.

All other notices shall be sent by the Secretary or an Assistant Secretary, or if there be no such officer, or in the case of his neglect or refusal to act, by any other officer, or by persons calling the meeting.

Section 2.4(A) Notice of Shareholder Business.

At an annual or special meeting of the shareholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) properly brought before the meeting by or at the direction of the Board of Directors, or (iii) properly brought before an annual meeting by a shareholder. For business to be properly brought before an annual meeting by a shareholder, it must be a proper matter for shareholder action under the California Corporations Code, and the shareholder must have given timely notice thereof in writing to the Secretary of the company. To be timely, a shareholder proposal to be presented at an annual meeting shall be received at the company's principal executive offices not less than 120 calendar days in advance of the first anniversary of the date that the company's (or the company's predecessor's) proxy statement was released to shareholders in connection with the previous year's annual meeting of shareholders, except that if no annual meeting was held in the previous year or the date of the annual meeting is more than 30 calendar days earlier than the date contemplated at the time of the previous year's proxy statement, notice by the shareholders to be timely must be received not later than the close of business on the 10th day following the day on which the date of the annual meeting is publicly announced.

"Public announcement" for purposes hereof shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended. In no event shall the public announcement at an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

A shareholder's notice to the Secretary of the company shall set forth as to each matter the shareholder proposes to bring before the annual or special meeting (i) a brief description of the business desired to be brought before the annual meeting, (ii) the name and address of the shareholder proposing such business and of the beneficial owner, if any, on whose behalf the business is being brought, (iii) the class and number of shares of the company which are beneficially owned by the shareholder and such other beneficial owner, and (iv) any material interest of the shareholder and such other beneficial owner in such business."

Section 2.5 Adjourned Meetings and Notice Thereof.

Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, represented either in person or by proxy, but in the absence of a quorum, no other business may be transacted at such meeting, except as provided in Section 2.7 of these By-Laws.

When a shareholders' meeting is adjourned to another time or place, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken; except that if the adjournment is for more than forty-five (45) days or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting shall be given to each shareholder of record entitled to vote thereat.

At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

Section 2.6 Voting.

Except as otherwise provided in the Articles of Incorporation and subject to Section 6.1 of these By-Laws, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of shareholders. Vote may be viva voce or by ballot; provided, however, that elections for directors must be by ballot upon demand made by a shareholder at the meeting and before the voting begins.

Every shareholder entitled to vote at any election for Directors may cumulate his votes and give one candidate a number of votes equal to the number of directors to be elected, multiplied by the number of votes to which his shares are entitled, or to distribute his votes on the same principle among as many candidates as he thinks fit, provided that no shareholder shall be entitled to cumulate votes unless such candidate or candidates names have been placed in nomination prior to the voting and the shareholder has given notice at the meeting, prior to the voting, of the shareholder's intention to cumulate the shareholder's votes. If any one shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination. The candidates receiving the highest number of votes of the shares entitled to be voted for them, up to the number of directors to be elected by such shares, shall be elected.

Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, other than elections to office, but, if the shareholder fails to specify the number of shares such shareholder is voting affirmatively, it shall be conclusively presumed that the shareholder's approving vote is with respect to all shares said shareholder is entitled to vote.

Section 2.7 Quorum.

A majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at any meeting of shareholders. If a quorum is present, the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on any matter shall be the act of the shareholders, unless otherwise required by the Articles of Incorporation.

The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum, if any action taken (other than adjournment) is approved by at least a majority of the shares required to constitute a quorum.

Section 2.8 Consent of Absentees.

The transactions of any meeting of shareholders, if not duly called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the shareholders entitled to vote, not present in person or by proxy, signs a written waiver of notice, or a consent to the holding of such meeting, or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when a person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; provided, that attendance at a meeting is not a waiver of any right to object to the consideration of matters required by law or these By-Laws to be included in the notice but not so included if such objection is expressly made at the meeting.

Section 2.9 Action Without Meeting.

Any action which may be taken at any meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the actions so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes which 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, that except to fill a vacancy as provided in Section 3.6 of these By-Laws, Directors may not be elected by written consent except by unanimous written consent of all shares entitled to vote for the election of Directors.

Unless the consents of all shareholders entitled to vote have been solicited in writing, notice of the following actions approved by shareholders without a meeting by less than unanimous written consent shall be given to those shareholders entitled to vote who have not consented in writing at least ten (10) days before the consummation of the action authorized by such approval:

1. Approval of a contract or other transaction between the corporation and one or more of its Directors, or

between the corporation and any corporation, firm or association in which one or more of its Directors has a material financial interest.

2. Approval of any indemnification to be made by the corporation of a person who was or is a party or is threatened to be made a party to any proceeding by reason of the fact that such person was or is an agent of the corporation.

3. Approval of the principal terms of a reorganization.

4. Approval of a plan of distribution of the shares, obligations or securities of any other corporation, or assets other than money, which is not in accordance with the liquidation rights of the preferred shares as specified in the Articles of Incorporation or a Certificate of Determination.

Unless the consents of all shareholders entitled to vote have been solicited in writing, prompt notice of the taking of any corporate action not listed above which is approved by shareholders without a meeting by less than unanimous written consent, shall be given to those shareholders entitled to vote who have not consented in writing.

Such notice shall be given as provided in Section 2.4 of these By-Laws.

Section 2.10 Proxies.

Every person entitled to vote shares may authorize another person or persons to act by proxy with respect to such shares. No proxy shall be valid after the expiration of eleven (11) months from the date thereof unless otherwise provided in the proxy.

ARTICLE III

DIRECTORS

Section 3.1 Powers.

Subject to the limitations stated in the Articles of Incorporation, these By-Laws, and the California Corporations Code as to actions which shall be approved by the shareholders or by the affirmative vote of a majority of the outstanding shares entitled to vote, and subject to the duties of Directors as prescribed by the California Corporations Code, all corporate powers shall be exercised by, or under the direction of, and the business and affairs of the corporation shall be managed by, the Board of Directors.

Section 3.2 Number of Directors.*

The authorized number of Directors of the corporation shall not be less than four (4) nor more than seven (7) and the exact number of directors initially authorized shall be five (5). The exact number of Directors may be fixed within the limits specified in this Section 3.2 by a Bylaw duly adopted by the shareholders or by resolution of the Board of Directors. The minimum or maximum number of Directors provided in this Section 3.2 may be changed or a definite number fixed without provisions for an indefinite number by a Bylaw duly adopted by the affirmative vote of a majority of the outstanding shares entitled to vote.

Section 3.3 Election and Term of Office.

The Directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held, or the Directors are not elected thereat, the Directors may be elected at any special meeting of the shareholders held for that purpose. All Directors shall hold office until the expiration of the term for which elected and until their respective successors are elected, except in the case of the death, resignation or removal of any Director. A Director need not be a shareholder.

Section 3.4 Resignation.

Any Director may resign effective upon giving written notice to the Chairman of the Board, the President, the Secretary or the Board of Directors of the corporation, unless the notice specifies a later time for the effectiveness of

---

* Amended by Shareholder resolutions dated April 3, 1989

such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 3.5 Removal.

The entire Board of Directors or any individual Director may be removed from office, prior to the expiration of their or his term of office only in the manner and within the limitations provided by the California Corporations Code.

No reduction of the authorized number of Directors shall have the effect of removing any Director prior to the expiration of such Director's term of office.

Section 3.6 Vacancies.

A vacancy in the Board of Directors shall be deemed to exist in case of the death, resignation or removal of any Director, or if the authorized number of Directors be increased, or if the shareholders fail at any annual or special meeting of shareholders at which any Director or Directors are elected to elect the full authorized number of Directors to be voted for at that meeting.

Vacancies in the Board of Directors may be filled by a majority of the Directors then in office, whether or not less than a quorum, or by a sole remaining Director. Each Director so elected shall hold office until the expiration of the term for which he was elected and until his successor is elected at an annual or a special meeting of the shareholders, or until his death, resignation or removal.

The shareholders may elect a Director or Directors at any time to fill any vacancy or vacancies not filled by the Directors. Any such election by written consent other than to fill a vacancy created by removal requires the consent of a majority of the outstanding shares entitled to vote. A Director may not be elected by written consent to fill a vacancy created by removal except by unanimous written consent of all shares entitled to vote for the election of directors.

Section 3.6(A) Nomination of Director Candidates.

Subject to the rights of holders of any class or series of Preferred Stock then outstanding, nominations for the election of Directors at an annual meeting may be made by (i) the Board of Directors or a duly authorized committee thereof or (ii) any shareholder entitled to vote in the election of Directors generally who complies with the procedures set forth in this Bylaw and who is a shareholder of record at the time notice is delivered to the Secretary of the company. Any shareholder entitled to vote in the election of Directors generally may nominate one or more persons for election as Directors at an annual meeting only if timely notice of such shareholder's intent to make such nomination or nominations has been given in writing to the Secretary of the company. To be timely, a shareholder nomination for a director to be elected at an annual meeting shall be received at the company's principal executive offices not less than 120 calendar days in advance of the first anniversary of the date that the company's (or the company's predecessor's) proxy statement was released to shareholders in connection with the previous year's annual meeting of shareholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been advanced by more than 30 calendar days from the date contemplated at the time of the previous year's proxy statement, notice by the shareholders to be timely must be received not later than the close of business on the tenth day following the day on which public announcement of the date of such meeting is first made. Each such notice shall set forth: (i) the name and address of the shareholder who intends to make the nomination, of the beneficial owner, if any, on whose behalf the nomination is being made and of the person or persons to be nominated; (ii) a representation that the shareholder is a holder of record of stock of the company entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (iii) a description of all arrangements or understandings between the shareholder or such beneficial owner and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; (iv) such other information regarding each nominee proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, had the nominee been nominated, or intended to be nominated, by the Board of Directors; and (v) the consent of each nominee to serve as a director of the company if so elected. In no event shall the public announcement of an adjournment or postponement of an annual meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Notwithstanding the third sentence of this Section 3.6(A), in the event that the number of Directors to be elected at an annual meeting is increased and there is no public announcement by the company naming the nominees for the additional directorships at least 130 days prior to the first anniversary of the date that the company's (or its predecessor's) proxy statement was released to shareholders in connection with the

previous year's annual meeting, a shareholder's notice required by this Section 3.6(A) shall also be considered timely, but only with respect to nominees for the additional directorships, if it shall be delivered to the Secretary at the principal executive offices of the company not later than the close of business on the 10th day following the day on which such public announcement is first made by the company.

Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the company's notice of meeting by (i) or at the direction of the Board of Directors or a committee thereof or (ii) any shareholder of the company who is entitled to vote at the meeting, who complies with the notice procedures set forth in this Bylaw and who is a shareholder of record at the time such notice is delivered to the Secretary of the company. In the event the company calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be), for election to such position(s) as are specified in the company's notice of meeting, if the shareholder's notice as required by paragraph (a) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the company not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 70th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment or postponement of a special meeting commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above.

For purposes of these Bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, PRNewsWire, Associated Press or comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended.

Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Only persons nominated in accordance with the procedures set forth in this Section 3.6(A) shall be eligible to serve as directors. Except as otherwise provided by law, the Chairman of the meeting shall have the power and duty (a) to determine whether a nomination was made in accordance with the procedures set forth in this Section 3.6(A) and (b) if any proposed nomination was not made in compliance with this Section 3.6(A), to declare that such nomination shall be disregarded.

If the Chairman of the meeting for the election of Directors determines that a nomination of any candidate for election as a Director at such meeting was not made in accordance with the applicable provisions of this Section 3.6(A), such nomination shall be void; provided, however, that nothing in this Section 3.6(A) shall be deemed to limit any voting rights upon the occurrence of dividend arrearages provided to holders of Preferred Stock pursuant to the Preferred Stock designation for any series of Preferred Stock."

Section 3.7 Organization Meeting.

Immediately after each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, the election of officers and the transaction of other business. No notice of such meeting need be given.

Section 3.8 Other Regular Meetings.

The Board of Directors may provide by resolution the time and place for the holding of regular meetings of the Board; provided, however, that if the date so designated falls upon a legal holiday, then the meeting shall be held at the same time and place on the next succeeding day which is not a legal holiday. No notice of such regular meetings of the Board need be given.

Section 3.9 Calling Meetings.

Meetings of the Board of Directors for any purpose or purposes shall be held whenever called by the Chairman of the Board, the President or the Secretary or any two Directors of the corporation.

Section 3.10 Place of Meetings.

Meetings of the Board of Directors shall be held at any place within or without the State of California which may be designated in the notice of the meeting, or, if not stated in the notice or there is no notice, designated by resolution of the Board. In the absence of such designation, meetings of the Board of Directors shall be held at the principal executive office of the corporation.

Section 3.11 Telephonic Meetings.

Members of the Board may participate in a regular or special meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this Section 3.11 constitutes presence in person at such meeting.

Section 3.12 Notice of Special Meetings.

Written notice of the time and place of special meetings of the Board of Directors shall be delivered personally to each Director, or sent to each Director by mail, telephone or telegraph. In case such notice is sent by mail, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered personally, or by telephone or telegraph, it shall be so delivered at least forty-eight (48) hours prior to the time of the holding of the meeting. Such notice may be given by the Secretary of the corporation or by the persons who called said meeting. Such notice need not specify the purpose of the meeting, and notice shall not be necessary if appropriate waivers, consents and/or approvals are filed in accordance with Section 3.13 of these By-Laws.

Section 3.13 Waiver of Notice.

Notice of a meeting need not be given to any Director who signs a waiver of notice, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

The transactions of any meeting of the Board of Directors, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum is present and if, either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting .

Section 3.14 Action Without Meeting.

Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such Directors.

Section 3.15 Quorum.

A majority of the authorized number of Directors shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum is present shall be the act of the Board of Directors, unless the Articles of Incorporation, or the California Corporations Code, specifically requires a greater number. In the absence of a quorum at any meeting of the Board of Directors, a majority of the Directors present may adjourn the meeting as provided in Section 3.16 of these By-Laws. A meeting at which a quorum is initially present may continue to transact business, notwithstanding the withdrawal of enough Directors to leave less than a quorum, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 3.16 Adjournment.

Any meeting of the Board of Directors, whether or not a quorum is present, may be adjourned to another time and place by the vote of a majority of the Directors present. Notice of the time and place of the adjourned meeting need not be given to absent Directors if said time and place are fixed at the meeting adjourned.

Section 3.17 Inspection Rights.

Every Director shall have the absolute right at any time to inspect, copy and make extra copies of, in person or by agent or attorney, all books, records and documents of every kind and to inspect the physical properties of the

corporation.

Section 3.18 Fees and Compensation.

Directors shall not receive any stated salary for their services as directors, but, by resolution of the Board, a fixed fee, with or without expenses of attendance, may be allowed for attendance at each meeting. Nothing herein contained shall be construed to preclude any Director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

Section 3.19 Loans to Officers.

The Board may approve loans of money or property from the corporation to, and guaranties by the corporation of the obligations of, any officer, whether or not a director, of the corporation, and may adopt employee benefit plans authorizing such loans and/or guaranties, without the approval of the shareholders of the corporation, provided that:

the corporation has outstanding shares held of record by more than 100 persons on the date of approval by the Board;

the vote for approval is sufficient without counting the vote of any interested director or directors; and

the Board determines that such loan, guaranty, or plan may reasonably be expected to benefit the corporation.

ARTICLE IV

EXECUTIVE COMMITTEE AND OTHER COMMITTEES

Section 4.1 Executive Committee.

The Board of Directors may, by resolution adopted by a majority of the authorized number of Directors, appoint an executive committee, consisting of two or more Directors. The Board may designate one or more Directors as an alternate member of such committee, who may replace any absent member of any meeting of the committee. The executive committee, subject to any limitations imposed by the California Corporations Code, or by resolution adopted by the affirmative vote of a majority of the authorized number of Directors, or imposed by the Articles of Incorporation or by these By-Laws, shall have and may exercise all of the powers of the Board of Directors.

Section 4.2 Other Committees.

The Board of Directors may, by resolution adopted by a majority of the authorized number of Directors, designate such other committees, each consisting of two or more Directors, as it may from time to time deem advisable to perform such general or special duties as may from time to time be delegated to any such committee by the Board of Directors, subject to the limitations contained in the California Corporations Code, or imposed by the Articles of Incorporation or by these By-Laws. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent member at any meeting of the committee.

Section 4.3 Minutes and Reports.

Each committee shall keep regular minutes of its proceedings, which shall be filed with the Secretary. All action by any committee shall be reported to the Board of Directors at the next meeting thereof, and, insofar as rights of third parties shall not be affected thereby, shall be subject to revision and alteration by the Board of Directors.

Section 4.4 Meetings.

Except as otherwise provided in these By-Laws or by resolution of the Board of Directors, each committee shall adopt its own rules governing the time and place of holding and the method of calling its meetings and the conduct of its proceedings and shall meet as provided by such rules, and it shall also meet at the call of any member of the committee. Unless otherwise provided by such rules or by resolution of the Board of Directors, committee meetings shall be governed by Sections 3.11, 3.12 and 3.13 of these By-Laws.

Section 4.5 Term of Office of Committee Members.

The term of office of any committee member shall be as provided in the resolution of the Board of Directors designating him but shall not exceed his term as a Director. Any member of a committee may be removed at any

time by resolution adopted by Directors holding a majority of the directorships, either present at a meeting of the Board or by written approval thereof.

ARTICLE V

OFFICERS

Section 5.1 Officers.

The officers of the corporation shall be a President, a Vice President, a Secretary, and a Treasurer, who shall be the Chief Financial Officer of the corporation. The corporation may also have, at the discretion of the Board of Directors, a Chairman of the Board, one or more additional Vice Presidents, one or more Assistant Treasurers, and such other officers as may be appointed in accordance with the provisions of Section 5.3. One person may hold two or more offices.

Section 5.2 Election.

The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 and 5.5, shall be chosen annually by the Board of Directors and each shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

Section 5.3 Subordinate Officers, etc.

The Board of Directors may appoint such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in these By-Laws or as the Board of Directors may from time to time determine.

Section 5.4 Removal and Resignation.

Any officer may be removed, either with or without cause, by a majority of the Directors at the time in office, at any regular or special meeting of the Board, or, except in case of an officer chosen by the Board of Directors, by an officer upon whom such power of removal may be conferred by the Board of Directors.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5.5 Vacancies.

A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these By-Laws for regular appointments to such office.

Section 5.6 Chairman of the Board.

The Chairman of the Board, if there shall be such an officer, shall, if present, preside at all meetings of the Board of Directors, and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors or prescribed by these By-Laws.

Section 5.7 President.

Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the President shall be the general manager and chief executive officer of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and officers of the corporation. He shall preside at all meetings of the shareholders. He shall be ex officio a member of all the standing committees, including the executive committee, if any, and shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or by these By-Laws.

Section 5.8 Vice President.

In the absence or disability of the President, the Vice Presidents in order of their rank as fixed by the Board of

Directors, or if not ranked, the Vice President designated by the Board of Directors, shall perform the duties of the President, and when so acting shall have all the powers of, and be subject to all the restrictions upon, the President. The Vice Presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board of Directors or these By-Laws.

Section 5.9 Secretary.

The Secretary shall keep, or cause to be kept, a book of minutes in written form of the proceedings of the Board of Directors, committees of the Board, and shareholders. Such minutes shall include all waivers of notice, consents to the holding of meetings, or approvals of the minutes of meetings executed pursuant to these By-Laws or the California Corporations Code. The Secretary shall keep, or cause to be kept at the principal executive office or at the office of the corporation's transfer agent or registrar, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each.

The Secretary shall give or cause to be given, notice of all meetings of the shareholders and of the Board of Directors required by these By-Laws or by law to be given, and shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these By-Laws.

Section 5.10 Treasurer and Chief Financial Officer.

The Treasurer and Chief Financial Officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of account in written form or any other form capable of being converted into written form.

The Treasurer and Chief Financial Officer shall deposit all monies and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board of Directors. He shall disburse all funds of the corporation as may be ordered by the Board of Directors, shall render to the President and Directors, whenever they request it, an account of all of his transactions as Treasurer and Chief Financial Officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these By-Laws.

Section 5.11 Assistant Secretary.

The Assistant Secretary shall have all the powers, and perform all the duties of, the Secretary in the absence or inability of the Secretary to act.

Section 5.12 Compensation.

The compensation of the officers shall be fixed from time to time by the Board of Directors, and no officer shall be prevented from receiving such compensation by reason of the fact that he is also a Director of the corporation.

ARTICLE VI
MISCELLANEOUS

Section 6.1 Record Date.

The Board of Directors may fix, in advance, a time in the future as the record date for the determination of shareholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action. Shareholders on the record date are entitled to notice and to vote or receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares in the books of the corporation after the record date, except as otherwise provided by law. Said record date shall not be more than sixty (60) or less than ten (10) days prior to the date of such meeting, nor more than sixty (60) days prior to any other action.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting, but the Board shall fix a new record date if the meeting is adjourned for more than forty-five (45) days from the date set for the original meeting.

If no record date is fixed by the Board of Directors, the record date shall be fixed pursuant to the California

Corporations Code.

Section 6.2 Inspection of Corporate Records.

The accounting books and records, and minutes of proceedings of the shareholders and the Board of Directors and committees of the Board shall be open to inspection upon written demand made upon the corporation by any shareholder or the holder of a voting trust certificate, at any reasonable time during usual business hours, for a purpose reasonably related to his interest as a shareholder, or as the holder of such voting trust certificate. The record of shareholders shall also be open to inspection by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to such holder's interest as a shareholder or holder of a voting trust certificate. Such inspection may be made in person or by an agent or attorney, and shall include the right to copy and to make extracts.

Section 6.3 Execution of Corporate Instruments.

The Board of Directors may, in its discretion, determine the method and designate the statutory officer or officers, or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the corporation. Unless otherwise specifically determined by the Board of Directors, formal contracts of the corporation, promissory notes, mortgages, evidences of indebtedness, conveyances or other instruments in writing, and any assignment or endorsement thereof, executed or entered into between the corporation and any person, may be signed by the Chairman of the Board, the President, any Vice President, the Secretary or the Treasurer of the corporation.

Section 6.4 Ratification by Shareholders.

The Board of Directors may, subject to applicable notice requirements, in its discretion, submit any contract or act for approval or ratification of the shareholders at any annual meeting of shareholders, or at any special meeting of shareholders called for that purpose; and any contract or act which shall be approved or ratified by the affirmative vote of a majority of the shares entitled to vote represented at a duly held meeting at which a quorum is present, or by the written consent of shareholders, shall be as valid and binding upon the corporation and upon the shareholders thereof as though approved or ratified by each and every shareholder of the corporation, unless a greater vote is required by law for such purpose.

Section 6.5 Annual Report.

For so long as the corporation has less than 100 holders of record of its shares, the mandatory requirement of an annual report is hereby expressly waived. The Board of Directors may, in its discretion, cause an annual report to be sent to the shareholders. Such reports shall contain at least a balance sheet as of the close of such fiscal year and an income statement and statement of changes in financial position for such fiscal year, and shall be accompanied by any report thereon of independent accountants, or if there is no such report, the certificate of an authorized officer of the corporation that such statements were prepared without audit in the books and records of the corporation.

A shareholder or shareholders holding at least five percent (5%) of the outstanding shares of any class of the corporation may make a written request to the corporation for an income statement and/or a balance sheet of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than thirty (30) days prior to the date of the request, and such statement shall be delivered or mailed to the person making the request within thirty (30) days thereafter. Such statements shall be accompanied by the report thereon, if any, of any independent accountants engaged by the corporation or the certificates of an authorized officer of the corporation that such financial statements were prepared without audit from the books and records of the corporation.

Section 6.6 Representation of Shares of Other Corporations.

The President and Vice President of this corporation are authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted to said officers to vote or represent on behalf of this corporation any and all shares held by this corporation and any other corporation or corporations may be exercised either by such officers in person or by any person authorized so to do by proxy or power of attorney and duly executed by said officers.

Section 6.7 Inspection of By-Laws.

The corporation shall keep in its principal executive office in this State the original or a copy of the By-Laws as amended or otherwise altered to date, which shall be open to inspection by the shareholders at all reasonable times during office hours.

ARTICLE VII

SHARES OF STOCK

Section 7.1 Form of Certificates.

Certificates for shares of stock of the corporation shall be in such form and design as the Board of Directors shall determine and shall be signed in the name of the corporation by the Chairman of the Board, or the President or Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or any Assistant Secretary. Each certificate shall state the certificate number, the date of issuance, the number, class or series and the name of the record holder of the shares represented thereby, the name of the corporation, and, if the shares of the corporation are classified or if any class of shares has two or more series, there shall appear the statement required by the California Corporations Code.

Section 7.2 Transfer of Shares.

Shares of stock may be transferred in any manner permitted or provided by law. Before any transfer of stock is entered upon the books of the corporation, or any new certificate issued therefor, the older certificate, properly endorsed, shall be surrendered and cancelled, except when a certificate has been lost, stolen or destroyed.

Section 7.3 Lost Certificates.

The Board of Directors may order a new certificate for shares of stock to be issued in the place of any certificate alleged to have been lost, stolen or destroyed, but in every such case, the owner or the legal representative of the owner of the lost, stolen or destroyed certificates may be required to give the corporation a bond (or other adequate security) in such form and amount as the Board may deem sufficient to indemnify it against any claim that may be made against the corporation (including any expense or liability) on account of the alleged loss, theft or destruction of any such certificate or issuance of such new certificate.

ARTICLE VIII

INDEMNIFICATION

Section 8.1 Indemnification by Corporation.

Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, or was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation, whether the basis of such Proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the California General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said Law permitted the corporation to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in Section .2 of this Article VIII, the corporation shall indemnify any such person seeking indemnity in connection with a Proceeding (or part thereof) initiated by such person only if such Proceeding (or part thereof) was authorized by the board of directors of the corporation. The right to indemnification conferred by this Section shall include the right to be paid by the corporation expenses incurred in defending any such Proceeding in advance of its final disposition to the fullest extent authorized by the California General Corporation Law; provided, however, that, if required by the California General Corporation Law, the payment of such expenses incurred by such person in

advance of the final disposition of such Proceeding shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such person, to repay all amounts so advanced if it should be determined ultimately that such person is not entitled to be indemnified under this Section or otherwise.

Section 8.2 Right of Claimant to Bring Suit.

If a claim under Section 8.1 of this Article VIII is not paid in full by the corporation within ninety (90) days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any Proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the California General Corporation Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, independent legal counsel, or it shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the California General Corporation Law, nor an actual determination by the corporation (including its board of directors, independent legal counsel, or its shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

Section 8.3 Indemnification of Employees and Agents of the Corporation.

The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses to any employee or agent of the corporation to the fullest extent of the provisions of this Article with respect to the indemnification of and advancement of expenses to directors and officers of the corporation.

Section 8.4 Rights Not Exclusive.

The rights conferred on any person by this Article VIII above shall not be exclusive of any other right which such person may have or hereafter acquire under any statute, provision of the Articles of Incorporation, By-Law, agreement, vote of shareholders or disinterested directors or otherwise.

Section 8.5 Indemnity Agreements.

The Board of Directors is authorized to enter into a contract with any Director, officer, employee or agent of the corporation, or any person who is or was serving at the request of the corporation as a Director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, or any person who was a director, officer, employee or agent of a corporation which was a predecessor corporation of the corporation or of another enterprise at the request of such predecessor corporation, providing for indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VIII.

Section 8.6 Insurance.

The corporation may purchase and maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the corporation or another corporation (including a predecessor corporation), partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the California Corporations Code.

Section 8.7 Amendment, Repeal or Modification.

Any amendment, repeal or modification of any provision of this Article VIII by the shareholders or the Directors of the corporation shall not adversely affect any right or protection of a Director or officer of the corporation existing at the time of such amendment, repeal or modification.

ARTICLE IX

AMENDMENTS

Section 9.1 Power of Shareholders.

New By-Laws may be adopted or these By-Laws may be amended or repealed by the affirmative vote of a majority of the outstanding shares entitled to vote or by the written consent thereof, except as otherwise provided by law or by the Articles of Incorporation.

Section 9.2 Power of Directors.

Subject to the right of shareholders as provided in Section 9.1 of these By-Laws, By-Laws other than a By-Law or amendment thereof specifying or changing the authorized number of Directors, or the minimum or maximum number of a variable Board of Directors, or changing from a fixed to a variable Board of Directors or vice versa, may be adopted, amended or repealed by the approval of the Board of Directors.

CONFIDENTIAL TREATMENT HAS BEEN REQUESTED FOR CERTAIN PORTIONS OF THIS DOCUMENT. SUCH PORTIONS ARE MARKED BY THE FOLLOWING SYMBOL [***].

DISTRIBUTION AGREEMENT

This DISTRIBUTION AGREEMENT (the "Agreement") is made effective as of March 11th, 1999 (the "Effective Date") by and between MELET SCHLOESING Laboratories ("MELET") and ABAXIS, Inc., a California corporation ("ABAXIS").

RECITALS

A. ABAXIS is the manufacturer of blood biochemistry analyzers described in Exhibit A, attached (the "ABAXIS Products").

B. MELET is the manufacturer of blood hematology analyzers described in Exhibit B, attached (the "MELET Products").

ABAXIS and MELET desire to enter into a non-exclusive distribution agreement whereby ABAXIS will distribute MELET Products in the territory described in Exhibit C, attached and MELET will distribute ABAXIS Products in the territory described in Exhibit D, attached.

1. DEFINITIONS.

1.1 "Instruments" means the electromechanical devices, which are more fully described in Exhibit A and Exhibit B to this Agreement.

1.2 "Discs" means the reagent discs, or rotors, which are more fully described in Exhibit A to this Agreement.

1.3 "Reagents" means the consumable products, which are more fully described in Exhibit B to this Agreement.

1.4 "Products" means the Instruments, Discs and the Reagents.

1.5 "Parties" means ABAXIS and MELET.

1.6 "Selling Party" means the party that is selling the Products to the Purchasing Party.

1.7 "Purchasing Party" means the party that is purchasing the Products from the Selling Party.

Confidential Treatment Requested

2. PURCHASE AND DISTRIBUTION RIGHTS.

2.1 Purchase Rights. The Selling Party will sell to the Purchasing Party the products for distribution according to the terms and conditions of this Agreement.

2.2 Distribution Rights. Subject to the terms of this Agreement, the Selling Party grants the Purchasing Party, and the Purchasing Party accepts, the non-exclusive, non-transferable right to distribute the Products solely to customers located within the territory. The Purchasing Party may not transfer any of these rights to any sub-Purchasing Party either in the employ or in any other way associated with the Purchasing Party. The Purchasing Party shall not have any rights to distribute the Products to customers located outside the territory and shall ensure that all entities in its distribution channel are prohibited from promoting, selling and servicing the Products outside the territory. Failure to ensure such restricted activities outside the territory shall be deemed a material breach of this Agreement. The Purchasing Party shall not have any rights to sell the Reagents/Rotors and/or to give service to other customers than their own (customers having purchased Instruments from the Purchasing Party) in their territory, except as expressly permitted in writing by the Selling Party.

2.3 Distribution Obligations of the Parties. During the term of this Agreement, the Purchasing Party will,

a. Obtain all reasonable governmental approvals and make all governmental registrations and filings necessary to import the Products into the territory and to distribute the Products in the territory, including obtaining approvals to import and distribute each lot of Discs and Reagents that the Parties purchase under this Agreement;

b. If any approval or registration of this Agreement shall be required to make it enforceable in the territory, or to comply with exchange regulations or other requirements so as to allow remittance abroad of payment as required in this Agreement, the Purchasing Party shall immediately take all required action and pay all required charges to obtain such approvals and registrations. The Purchasing Party shall keep the Selling Party informed of the status of all efforts relating to such approvals and registrations, and the Selling Party shall be under no obligation to ship Products to the Purchasing Party thereunder until the Purchasing Party has provided the Selling Party with satisfactory evidence that such approval or registration is not required or that it has been obtained;

c. Use its best efforts to promote the sales of the Products to customers located in the territory;

d. Provide and maintain an adequately staffed, equipped and trained sales organization, whose members will be able to explain in detail to customers the specification, features and benefits of the products and the differences between the Products and competitive products;

e. Provide sales and market data reports on a calendar quarter basis, and at the Selling Party's request, including customer identities, instrument information, sales volume, and other information relating to the actual and potential market for the Products in the territory;

f. Keep the Parties informed concerning problems encountered and their resolutions, and communicate promptly to each other any and all modifications, design changes or improvements of the Products suggested by any customer of the Purchasing Party or any employee or agent of the Purchasing Party (the Parties agree that the Selling Party shall be and remain the sole and exclusive owner of all such information related to their own Products); and

g. Purchase, during each of the periods described in Exhibit F, attached to this Agreement, at least the minimum quantities of orders of the Products as set forth in Exhibit F. Failure to purchase such minimum quantities or orders shall be deemed a material breach of this Agreement.

3. PRICE, TAXES.

3.1 Price. The price formula for the Products is set forth in Exhibit A ("ABAXIS Product Description and Price List") and Exhibit B ("MELET Product Description and Price List") to this Agreement.

3.2 Price Changes. After one (1) year, the Selling Party reserves the right to amend the prices shown on the Price Lists upon ninety (90) days prior written notice to the Purchasing Party. No increase in prices or reduction in discounts will apply to items for which Firm Orders (as defined in Section 5.1 below) are accepted by the Selling Party before the effective date of the change. The Purchasing Party will have the benefit of any reduction in prices or increase in discounts for Firm Orders accepted but not shipped before the effective date of such change. In case of any price modifications from the Selling Party, the Purchasing Party will have the right to reconsider the Minimum Purchase Requirements in Exhibit F. The selling prices offered by the Selling Party to the Purchasing

Party shall never be higher (more expensive) than the selling prices offered by the Selling Party to another Distributor, Representative Agent, Sub-Dealer or all other companies which have the right to sell the product in the same territory as the Purchasing Party as defined in Territory in Exhibit C and Exhibit D.

3.3 Taxes. The Purchasing Party shall pay for all sales, use, value-added, and other taxes (except taxes on each Party's net income), and all customs, duties, and tariffs now or hereafter claimed or imposed by any governmental authority upon the sale of the Products to the Purchasing Party, or upon payments to each other under this Agreement.

4. PAYMENT.

4.1 Instrument Payment Offset. The Purchasing Party is not required to pay the Selling Party for the Products purchased under this agreement as long as the ratio of Products purchased is equal to ABAXIS purchase of one and a half (1½) MELET Instruments for each MELET purchase of one (1) ABAXIS Instrument. This ratio will be tested every Two months ending February 28, April 30, June 30, August 31, October 31, December 31 after the effective date. Should the ratio not equal the above formula, then payment will be required as described in 4.3.

4.2 Disc, Reagent, Accessory and Spare Parts Payment. Payments to the Selling Party for discs, reagents, accessories and spare parts purchased by the Purchasing Party shall be required as described in 4.3.

4.3 Payment to the Selling Party. Payments under this Agreement to the Selling Party are due sixty days (60) after invoice date and will be made in United States dollars for MELET payment to ABAXIS and in Euros for ABAXIS payment to MELET, free of any currency control or other restrictions, by wire transfer to the Selling Party bank account designated by the Selling Party. The Purchasing Party will bear any fees associated with the wire transfer. Credit terms may be extended to the Purchasing Party at the complete discretion of the Selling Party and the Selling Party may require all past due payments prior to release of Products to the Purchasing Party. The Selling Party reserves the right, upon written notice to the Purchasing Party, to declare all sums immediately due and payable in the event of a breach by a party of any of its obligations to the Selling Party, including the failure of the Purchasing Parry to comply with credit terms. Furthermore, the Selling Party reserves the right at all times either generally or with respect to any specific order, to vary, change, or limit the amount or duration of credit to be allowed to the Purchasing Party. The payment delay offered by the Selling Party to the Purchasing Party shall never be shorter than the payment delay offered by the Selling Party to another Distributor, Representative Agent, Sub-Dealer or all other companies which will have the right to sell the Products in the same territory as the Purchasing Party as defined in Exhibit C and Exhibit D.

5. ORDERS.

5.1 Forecast; Form of Orders. The Purchasing Party will provide the Selling Party with a good faith rolling twelve-month forecast of its requirements every three (3) months. The Purchasing Party will purchase Products from the Selling Party by the issuance of firm written purchase orders ("Firm Orders") specifying the quantity of each Product ordered and the shipping date or dates for shipment thereof. Purchase orders will specify release dates not less than sixty (60) calendar days after receipt of the Firm Order nor more than one hundred eighty (180) calendar days after receipt of the Firm Order unless specifically agreed by the Selling Party. Each purchase order issued hereunder will bear the following statement:

"This Purchase Order is placed pursuant to the Distribution Agreement between the Parties."

All purchase orders are subject to acceptance by the Selling Party at its home office and no order shall become binding on the Selling Party until accepted in writing. All orders shall be addressed by the Purchasing Party to the Selling Party who will have two (2) weeks to accept and confirm the order. None of the preprinted terms or conditions of any purchase order will amend or supplement this Agreement even if accepted by the Selling Party.

5.2 Increases. The Purchasing Party may request an increase in the quantities of Products ordered under a Firm Order and the Selling Party will be obligated to honor such request only if the increased quantity does not exceed 30% of the original order, subject to reasonable allocation among its customers in the event of limited supply; provided however, that the Selling Party will only be obligated to use commercially reasonable efforts to satisfy such additional demand if the request is received less than sixty-one (61) calendar days prior to the scheduled shipment date for that additional demand.

5.3 Cancellation and Deferment. All or any portion of a request for shipment release may not be deferred or canceled less than sixty-one (61) days prior to the scheduled shipment date.

5.4 minimum of order. All orders shall have a minimum order of:

- Instruments : 30 units

5.5 Express order. For all Discs and Reagents having a shelf-life of under ten (10) months, the Selling Party will exercise its best effort in shipping Products within forty eight (48) hours from the manufacture date.

6. SHIPMENT AND ACCEPTANCE.

6.1 Shipment. The Selling Party will use diligent efforts to ship the Products at the time requested in Firm Orders accepted by the Selling Party. In the event of shortage of labor, energy, components, raw materials or supplies or interruption of the Selling Party production or shipment for reasons beyond the Selling Party's reasonable control, the Selling Party will give the Purchasing Party reasonable priority in terms of allocating the Selling Party's production and shipment of the Products.

Without liability to any person and without prejudice to any other remedy, the Selling Party may withhold or delay shipment of any order if the other party is late in payment or is otherwise in default under this Agreement. The Selling Party shall promptly notify the Purchasing Party in the event that the Selling Party withholds or delays shipments under this Agreement.

6.2 Packaging and Shipment-Risk of Loss. The Selling Party will package in an export damage proofed container and ship all items subject to Firm Orders in Selling Party's customary manner. All shipments will be F.O.B. departure origin. Title to the Products and the risk of loss of or damage to the Products ordered by the Purchasing Party will pass to the Purchasing Party upon F.O.B. departure origin. Subsequent loss or damage will not relieve the Purchasing Party of any obligation under this Agreement.

6.3 Shipment Expense. The Purchasing Party will select the method and carrier to transport the Products ordered to the Selling Party. The Purchasing Party will pay all costs of transportation and export fees. The Purchasing Party shall pay also all import fees, custom fees and customs brokerage expenses and similar charges. The Purchasing Party at its expense will make and negotiate any claims against any carrier, insurer or freight forwarder. The Selling Party will cooperate with and assist the Purchasing Party in making such claims.

6.4 Acceptance. The Purchasing Party will have ten (10) working days after its receipt of Products to accept or reject those Products. The Purchasing Party may only reject Products which fail to conform to the warranty for the Products contained in Section 7 below. If the Purchasing Party has not notified the Selling party orally (with written confirmation from the Purchasing Party delivered to Selling Party within ten (10) working days after such notification) or in writing of its rejection of Products within ten (10) working days after receipt of those Products, those Products will be deemed accepted by the Purchasing Party. The Purchasing Party will, upon the request of the Selling Party and in accordance with the Selling Party's standard procedures, return such rejected Products to the Selling Party at the Selling Party's expense and risk; provided, however, that the Purchasing Party shall reimburse the Selling Party if such Products in fact conform to warranty for the Products as contained in Section 7 below. The Selling Party will replace, at Selling Party's expense and risk, any Products rejected by the Purchasing Party pursuant to this Section 6.4 within ten (10) working days after receiving written notice of such rejection.

7. WARRANTY.

7.1 Warranty and Warranty Conditions. The Parties agree to the Quality Warranty Quality and Warranty Conditions as set forth in Exhibit E.

7.2 Shelf-life of Discs and Reagents. The minimum shelf-life of Discs and Reagents shipped to the Purchasing Party by the Selling Party shall be at least 90% for the Discs and Reagents which have a shelf-life under 12 months and at least 70% for the Discs and Reagents which have a shelf-life equal to or longer than 12 months of the shelf-life as detailed in Exhibit A and Exhibit B. The Purchasing Party shall agree any deviation from the shelf-life in writing. The minimum shelf-life can be lower depending on the size of the order and agreed to in writing by the Purchasing Party.

7.3 Disclaimer of Warranties. EXCEPT FOR THE LIMITED WARRANTY FOR THE PRODUCTS CONTAINED IN SECTION 7.1, THE SELLING PARTY AND ITS SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO NON-INFRINGEMENT OF THIRD PARTY RIGHTS,

MERCHANTABILITY, OR FITNESS FOR A PARTICULAR PURPOSE.

8. TRAINING AND MAINTENANCE.

8.1 Training. The Selling Party will offer, without charge and at a mutually acceptable time, one (1) training session in the operation and maintenance of the Products at the Selling Party's offices for a reasonable number of Purchasing Party qualified personnel. In addition, Purchasing Party's personnel may attend Selling Party's scheduled training sessions conducted at the Selling Party's facilities for the Selling Party at the then current training fees.

8.2 Spare Parts. The Selling Party agrees to sell spare parts for repair of the Products. The Selling Party agrees to sell spare parts for repair of the Products for a period of five (5) years after discontinuing a particular Product ordered under this Agreement. Not less than six (6) months preceding the expiration of this period, the Selling Party will provide the Purchasing Party with a detailed spare provisioning document, including prices, to enable the Purchasing Party to order spare parts it may require after the period of availability. The prices for spare parts will be the Selling Party's current prices at the time of the Purchasing Party's order thereof. The Purchasing Party agrees to send parts that need repair to the Selling Party for repair. The Selling Party agrees to repair the broken part or ship to the Purchasing Party a like part in good working order. The Purchasing Party shall pay all import fees, custom fees and customs brokerage expenses and similar charges for the repaired part. The Selling Party will pay all costs of transportation and export fees for the repaired part. The complete list with references and prices of spare parts shall be transmitted to both Parties at the starting date of this Agreement.

8.3 Out of Warranty Maintenance. The Selling Party will provide maintenance services to the Purchasing Party for Products which are out of warranty at the Selling Party's then current maintenance fees and subject to the Selling Party's policies with respect to such maintenance; provided, however, that the Selling Party will use its best efforts to repair such Products within ten (10) working days after receipt of those Products. The out of warranty maintenance cost for any kind of repair should never exceed 30% of the selling price of a new instrument.

9. ENGINEERING CHANGES; DOCUMENTATION; COOPERATION.

9.1 Product Changes. The Selling Party shall have the right to make changes, substitutions and modifications in the Products and the package inserts. Such substitutions or modifications, other than mandatory field change orders required for equipment safety or proper operation, will not materially and adversely affect the form, fit or function of the Products and will be operationally compatible with prior versions of the Products.

9.2 Right to Reproduce Documentation. Subject to Section 10.2 of this Agreement, the Purchasing Party shall have the right to translate, reproduce and distribute any training and end-user documentation provided by the Selling Party pursuant to this Agreement.

10. PROPRIETARY RIGHTS; RECORDS, NON-COMPETE.

10.1 Ownership by the Selling Party. The Purchasing Party acknowledges and agrees that the Purchasing Party has no proprietary rights in the Products or any other materials received from the Selling Party, and does not acquire any proprietary rights by virtue of this Agreement, except those contractual rights that are expressly granted herein.

10.2 Trademarks and Trade Names. The Selling Party grants to the Purchasing Party a limited, license to use the Selling Party's trademarks. The Purchasing Party agrees that the nature and quality of any products or services it supplies in connection with the trademarks shall conform to the standards set by the Selling Party.

a. The Selling Party grants the right to the Purchasing Party to prominently display the name of his choice on the Selling Party Instrument, Discs and Reagents. The Selling Party shall cooperate with the Purchasing Party in such adaptation. The Selling Party shall have Sixty (60) days from the effectiveness of this agreement to adopt the Purchasing Party's logo and software changes to reflect the Purchasing Party's name. The color adaptation is considered as a specific requirement and the Selling Party shall have Ninety (90) days to make such adaptation at the Purchasing Party's entire cost.

b. Format and style used by the Purchasing Party must be approved, in writing in advance, by the Selling Party to protect the Selling Party's trademark rights. All products must be sold in the original packaging and no additions or deletions to the labeling can be made by Purchasing Party unless approved by the Selling Party in writing.

c. The Purchasing Party agrees that all use of the Selling Party's trademarks shall clearly indicate the Selling Party

as the trademark owner, and the Purchasing Party shall not do or cause anything to be done that would impair or reduce the Selling Party's rights, title and interest in the trademark information.

10.3 Undertaking not to compete. The Purchasing Party and its branch offices, stores or the like in the activity territory as defined in Exhibit C and Exhibit D agree to refrain from promoting, selling, distributing, representing or otherwise dealing with any product or service, which is or may be competitive to the Selling Party's products or services. The Purchasing Party, their owners and shareholders must refrain from having participation, or consulting position, in any competitive company of the Selling Party anywhere, in any territory. Any failure to apply this clause shall be deemed a material breach of this agreement.

11. INDEMNIFICATION.

11.1 Indemnification. The Selling Party agrees to defend and otherwise hold the Purchasing Party harmless from all claims by third parties pertaining to the infringement of United States and E.U. patents, copyrights and trade secrets by any of the Products, provided that Purchasing Party gives the Selling Party reasonable written notice of any such claim to the Selling Party with full cooperation (at the Selling Party's expense) for the defense or settlement of the same.

11.2 Options. If the Selling Party receives notice of an alleged infringement or if Purchasing Party's use of the Products is prevented by permanent injunction, the Selling Party may, at its sole option and expense, procure for the Purchasing Party the right to continued use of the Products, or provide the Purchasing Party with versions of the Products that are not infringing, or refund to Purchasing Party all payments received by the Selling Party under this Agreement relating to the Products (reflecting any quantity or other discounts granted to the Purchasing Party, less any amount for depreciation calculated in a straight-line basis over an assumed useful life of three (3) years).

11.3 Exclusions. In no event wilt the Selling Party have any liability under this Section 11 for any claim of infringement which is based on (a) combination or use of the Products with equipment where the infringement would not be caused by use of the Products alone, or (b) modification of the Products by other than the Selling Party if such claim could have been avoided by the use of unmodified versions of the Products.

11.4 Limitation. THE RIGHTS GRANTED TO THE PURCHASING PARTY UNDER THIS SECTION 11 ARE THE PURCHASING PARTY'S SOLE AND EXCLUSIVE REMEDY FOR ANY ALLEGED INFRINGEMENT OF ANY PROPRIETARY RIGHTS OF ANY KIND.

11.5 Purchasing Party's Indemnification. The Purchasing Party will indemnify the Selling Party against third-party claims based on misleading statements, provided that the Selling Party gives Purchasing Party reasonable written notice of any such claim and provides the Purchasing Party with full cooperation (at the Purchasing Party's expense) for the defense or settlement.

12. LIMITATION OF LIABILITY.

12.1 IN NO EVENT WILL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY SPECIAL DAMAGES, INCLUDING ANY LOST PROFITS, LOST SAVINGS OR OTHER INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND, HOWEVER CAUSED, WHETHER FOR BREACH OR REPUDIATION OF CONTRACT, TORT, BREACH OF WARRANTY, NEGLIGENCE, OR OTHERWISE, WHETHER OR NOT THE PARTY WAS ADVISED OF THE POSSIBILITY OF SUCH LOSS OR DAMAGES.

12.2 NO ACTION MAY BE BROUGHT OR ARBITRATION DEMANDED UNDER THIS AGREEMENT AT ANY TIME MORE THAN TWELVE (12) MONTHS AFTER THE CAUSE OF ACTION OR ARBITRATION AROSE.

12.3 NOTWITHSTANDING ANY OTHER PROVISIONS OF THIS AGREEMENT, THE SELLING PARTY'S TOTAL LIABILITY TO PURCHASING PARTY ARISING FROM OR IN RELATION TO THIS AGREEMENT OR THE PRODUCTS SHALL BE LIMITED TO THE TOTAL PAYMENTS TO THE SELLING PARTY UNDER THIS AGREEMENT FOR THE RELEVANT PRODUCTS. THIS LIMITATION WILL APPLY TO ALL CAUSES OF ACTION IN THE AGGREGATE. IN NO EVENT WILL THE SELLING PARTY BE LIABLE FOR THE COST OF PROCUREMENT OF SUBSTITUTE GOODS.

13. CONFIDENTIAL INFORMATION.

13.1 Confidential Information. Each party agrees to use the other party's Confidential Information only as

authorized in this Agreement and to use diligent efforts, and at least the same degree of care that is used to protect its own confidential information of like importance, to prevent unauthorized use, dissemination and disclosure of the other's Confidential Information during and after the term of this Agreement. "Confidential Information" includes:

a. In the case of the Selling Party, any software and hardware designs, drawings, procedures and trade secrets, including any specifications, schematic, mechanical and engineering drawings, and engineering documentation for the Products;

b. Any and all methods, algorithms, techniques and processes contained in or related to the Products;

c. Both parties' research and development, pricing and new product and marketing plans, unless and until publicly disclosed;

d. Nonpublic financial and administrative information concerning either party; and

e. Any other information designated by either party in writing as confidential or proprietary.

13.2 Exceptions. Confidential Information will not include any information that (a) becomes known to the general public without fault or breach on the part of the receiving party; (b) the receiving party obtains from a third party without breach of a non-disclosure obligation and without restriction on disclosure; or (c) is already known to the receiving party prior to its disclosure by the other party.

13.3 Publicity. Neither party shall make public information concerning this Agreement nor the supplies or services provided thereunder without the prior written consent of the other party except as may be required by law or pursuant to a lawful request of a governmental agency. Such disclosure required by law or pursuant to lawful request upon one party shall be communicated, in a timely manner, to the other party. Notwithstanding this provision, the Selling Party reserves the right to use the Purchasing Party's name and sales in press releases about the sale of the Selling Party products in the foreign market.

13.4 Specific Exception. The Selling Party is allowed to keep confidential very specific technical information which is strategically very important for the Selling Party and which is not important for selling and/or servicing the Instruments by the Purchasing Party.

14. TERM AND TERMINATION.

14.1 Term. The initial term of this Agreement will commence on the Effective Date and, unless earlier terminated as provided below, will continue for a period of ten (10) years after the Effective Date (the "Initial Term").

14.2 Termination for Cause. This Agreement and all licenses thereunder will terminate:

a. On the thirtieth (30th) day after either party gives the other notice of a material breach by the other of any term or condition of this Agreement, unless the breach is cured or notice of intent to cure and to accept such notice by the other party before that day; provided that (i) any breach of Section 13 ("Confidential Information") will be deemed a material breach of this Agreement that cannot be cured, and (ii) if the material breach is either party's failure to pay any amounts due in a timely manner, the notice of default shall provide for a cure period of not less than five (5) working days; or

b. Immediately and without further liability after either party gives written notice to the other party if either party declares bankruptcy or bankruptcy proceedings are instituted involuntarily on its behalf, and the voluntary or involuntary proceedings are not dismissed within sixty (60) calendar days.

c. Any failure to purchase the minimum quantities required by paragraph 2.3(g) as specified in Exhibit F hereof shall be deemed a material breach of this agreement.

d. Any failure to distribute the product only in the activity territory required by paragraph 2.2 as specified in Exhibit C and Exhibit D hereof shall be deemed a material breach of this agreement.

e. Any failure to respect section 10.3 Non-compete shall be deemed a material breach of this agreement.

f. The Purchasing Party uses a copy, copies, or helps a third party to copy, all or parts of the Selling Party's Products and/or makes or helps to make any modification to the software, design, logo or other changes in or on Products without prior notice and official written authorization from the Selling Party shall be deemed a material

breach of this agreement.

14.3 The Effect of Termination. After termination (not for cause):

a. Any Firm Orders received by the Selling Party prior to termination will remain enforceable, regardless of when such Firm Orders will be shipped;

b. The Purchasing Party may continue to market the Products in its possession in its customary manner in the ordinary course of business; and

c. Payment and indemnification obligations arising prior to termination and the obligations of each party to keep the other's Confidential Information confidential, will remain in force.

14.4 Liability and Other Remedies. NEITHER PARTY WILL BE LIABLE FOR DAMAGES OF ANY KIND AS A RESULT OF EXERCISING ITS RIGHT TO TERMINATE THIS AGREEMENT ACCORDING TO ITS TERMS, AND TERMINATION WILL NOT AFFECT ANY OTHER RIGHT OR REMEDY OF EITHER PARTY.

15. JUDICIARY SETTLEMENT AND ARBITRATION.

Except as set forth in this Section 15, any controversy, claim or dispute arising out of or related to this Agreement, or the breach or alleged breach hereof, will be submitted by the parties to the tribunal of the defendant party which is the only competent body for any dispute relative to this contract:

- The competent tribunal for MELET is the Tribunal De Commerce DePontoise – France which will settle the dispute according to the civil procedure.

- The competent tribunal for ABAXlS is the American Arbitration Association in the City of Sunnyvale, State of California, United States, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association by three (3) arbitrators (one of whom will be chosen by each party and the third of whom will be chosen by the two arbitrators chosen by the Parties).

16. GENERAL PROVISIONS.

16.1 Assignment. The Selling Party may assign this Agreement to the surviving entity in a merger or consolidation in which it participates or to a purchaser of all or substantially all of its assets; or, the Selling Party may assign this Agreement to any person to whom it transfers all or substantially all of its proprietary rights in the Products with prior agreement by both parties in writing. Neither party may assign any rights or delegate any duties under this Agreement without the other party's prior written consent, and any attempt to do so without that consent will be void. This Agreement will bind and inure to the benefit of the parties and their respective successors and permitted assigns.

16.2 Choice of Law. This Agreement shall be governed in all respects by the Agreement of the United Nations Convention on Contracts for the International Sale of Goods.

16.3 Amendment. This Agreement may be amended or supplemented only by a writing that refers explicitly to this Agreement and that is signed on behalf of both parties.

16.4 Waiver. No waiver will be implied from conduct or failure to enforce rights. No waiver will be effective unless in a writing signed on behalf of the party against whom the waiver is asserted.

16.5 Contingencies. Neither party will have the right to claim damages or to terminate this Agreement as a result of the other party's failure or delay in performance due to circumstances beyond its reasonable control, including but not limited to labor disputes, strikes, lockouts, shortages of or inability to obtain labor, energy, components, raw materials or supplies, war, riot, insurrection, epidemic, acts of God, or governmental action not the fault of the non-performing party.

16.6 Severability. If any part of this Agreement is found invalid or unenforceable that part will be enforced to the maximum extent permitted by law and the remainder of this Agreement will remain in full force.

16.7 Entire Agreement. This Agreement, including all Exhibits to this Agreement, which are hereby incorporated by reference, represents the entire agreement between the parties relating to its subject matter and supersedes all prior representations, discussions, negotiations and agreements, whether written or oral. The original of this

Agreement has been written in English and English is the governing language of this Agreement.

16.8 Notices. Every notice or other communication required or contemplated by this Agreement by either party shall be delivered either by (a) personal delivery, (b) certified or registered air mail (postage prepaid, return receipt requested), or (c) "tested" fax (a fax for which the proper answer back has been received) addressed to the party for whom intended at the following address:

If to ABAXIS, at the following address:

Abaxis, Inc.

1320 Chesapeake Terrace

Sunnyvale, CA 94089

Attn.: Corporate Secretary

Fax: (408) 734-0200

If to MELET, at the following address:

MELET SCHLOESING Laboratories

BP 508 - 9 ch. Jules Cesar - OSNY

95528 - CERGY-PONTOISE Cdx

France

Attn.: President

or at such other address as the intended recipient previously shall have designated by written notice to the other parties. Notice by mail shall be effective on the date it is officially recorded as delivered to the intended recipient by return receipt or equivalent. All notices and other communication required or contemplated by this Agreement delivered in person or sent by "tested" fax shall be deemed to have been delivered to and received by the addressee and shall be effective on the date of personal delivery or on the date sent, respectively. Notice not given in writing shall be effective only if acknowledged in writing by a duly authorized representative of the party to whom it was given.

16.9 Relationship of Parties. The parties to this Agreement are independent contractors. There is no relationship of agency, partnership, joint venture, employment or franchise between the parties. Neither party has the authority to bind the other or to incur any obligation on its behalf. Purchasing Party shall not have, and shall not represent that it has, any power, right or authority to bind the Selling Party, or to assume or create any obligation or responsibility, express or implied to appear as a bonafide agent or representative, on behalf of the Selling Party or in name, except as expressly permitted in writing. All such duties shall extend to Purchasing Party's employees, subcontractors, agents, heirs and assigns.

16.10 Effective Date. This Agreement is subject to all necessary approvals and/or authorizations or other required procedures of the Governments of France and the United States having been obtained or completed. In the event that a recommendation or order for modification or suspension of the terms and conditions of this Agreement or the acts contemplated hereunder is made by either of the above-mentioned Governments, this Agreement shall only become or continue to be effective if an amendment is executed in writing by the parties. Failure by the parties to reach an agreement shall result in this Agreement being deemed null and void *ab initio*, and all rights, duties and obligations of each party to the other shall no longer exist. In the event of such termination, any expenses which

either party may have incurred in respect to this Agreement and the subject matter of this Agreement shall be for the account of the party having incurred them.

16.11 Authority. Each party warrants that it has full power to enter into and perform this Distribution Agreement, and the person signing this License Agreement on such party's behalf has been duly authorized and empowered to enter into this Distribution Agreement, understands it and agrees to be bound by it.

IN WITNESS WHEREOF, the parties hereto have executed this Distribution Agreement as of the day and year first written above.

ABAXIS, Inc.

By: ___ _____

Clinton Severson Date

President and CEO

MELET SCHLOESING Laboratories:

By: ___ _____

_____ Date

EXHIBITS

Exhibit A	-	ABAXIS Products and Price List
Exhibit B	-	MELET Products and Price List
Exhibit C	-	ABAXIS Territories
Exhibit D	-	MELET Territories
Exhibit E	-	Quality Warranty & Warranty Conditions
Exhibit F	-	Minimum Purchase Requirements

EXHIBIT A

ABAXIS PRODUCT DESCRIPTION AND PRICE LIST

A. INSTRUMENTS

1) Vetscan® / Piccolo Analyzer U.S. $***

As long as MELET Purchases 1 VetScan® (or Piccolo) for each 1½ MS4's purchased by ABAXIS

2) Vetscan® / Piccolo Analyzer U.S. $***

This price is good for each Vetscan® (or Piccolo) MELET Purchases above 1 Vetscan® for each 1½ MS4's purchased by ABAXIS

B.

REAGENT DISCS		Shelf-Life in months	Prices
500-005	Prep Profile Box of 10 ALT, BUN, CRE, GLU, & TP	18	U.S. $***
500-0055	Prep Profile Box of 25	18	U.S. $***
500-0002	Diagnostic Profile Plus Box of 10 ALB, ALP, ALT, AMY, BUN, CA++, CHOL, CRE, GLOB*, GLU, K+, TBIL & TP	8	U.S. $***
500-0052	Diagnostic Profile Plus 80% of 25	8	U.S. $***
500-0003	Liver Profile Box of 10 ALB, ALP, ALT, AST, GGT, GLOB*, TBIL, & TP	18	U.S. $***
500-0004	Thyroxine (T4) Test Box of 10	6	U.S. $***
500-0014	Equine Profile Box of 10	12	U.S. $***
500-0017	Critical Care Profile Box of 10	6	U.S. $***
400-0003	Piccolo Liver Panel Plus Box of 10 ALB, ALP, ALT, AMY, AST, GGT, TBIL & TP	12	U.S. $***
400-0006	Piccolo General Chemistry 6 Box of 10 ALT, AST, BUN, CRE, GGT & GLU	18	U.S. $***
400-0007	Piccolo General Chemistry 7 Box of 10 BUN, CA++, CHOL, CRE, GLU, TBIL & UA	12	U.S. $***
400-0012	Piccolo General Chemistry 12 Box of 10 ALB, ALP, ALT, AMY, AST, BUN, CA++, CHOL, CRE,GLU, TBIL & TP	18	U.S. $***

C. Accessories

100-9000	Instrument Carrying Case	U.S. $***
100-8001	Plug, Lighter Adapter	U.S. $***
500-7005	VetScan® Result Cards, 15/pkg.	U.S. $***
200-7007	VetScan® Operators Manual	U.S. $***
500-9002	Drummond Capillary Pipettes 100/pkg. (100 microliter)	U.S. $***
500-9003	B-D lithium heparin vacutainer Tubes (100/box)	U.S. $***
500-9004	Plastic Pipettes (440/box)	U.S. $***
400-7056	Piccolo Result Cards 15/Pkg	U.S. $***
400-7008	Piccolo Operators Manual	U.S. $***

D. Spare Parts

To follow later this week

Prices per quantity for the Discs & Reagents shall be offered from the Selling Party to the Purchasing Party.

EXHIBIT B

MELET PRODUCT DESCRIPTION AND PRICE LIST

A) Equipment

1)	MS4 Vet/Human	[∈ ***]
	As long as MELET Purchases 1 ABAXIS' Instrument for each 1½ MS4's purchased by ABAXIS	
2)	MS4 Vet/Human	[∈ ***]
	This price is good for each MS4 ABAXIS Purchases above 1½ MS4's for each 1 ABAXIS' Instrument Purchased by MELET.	

B) Reagents

1)	'Cleaning Solution'	[∈ ***]
2)	Blood Cell Control '102CONTROL-DIFF 3x1 tubes	[∈ ***]
3)	'HEMOKIT200' Blood microsampler (200/box)	[∈ ***]
4)	MS4-PACK (with MS-Card) for MS4 Vet	[∈ ***]
5)	MS4-PACK (with MS-Card) for MS4 Human	[∈ ***]
6)	Blood clot filter	
7)	Tubing	

C) Accessories

To follow later this week

D) Spare parts

To follow later this week

Prices per quantity for the Discs 8 Reagents shall be offered from the Selling Party to the Purchasing Party.

EXHIBIT C

ABAXIS Territories

U.S.A

Canada

United Kingdom

Australia

New Zealand

Mexico

Japan

New activity territories shall be negotiated in compliance with direct implantation of the Purchasing Party or on proved strength and efficiency of the local agent concerning already developed business.

EXHIBIT D

MELET Territories

France

Belgium

The Netherlands

Luxembourg

Austria

Hungary

United Arabic Emirates

Jordan

Palestine

Saudi-Arabia

Iran

Iraq

Yemen

Oman

Bahrain

Kuwait

Qatar

Taiwan

China

Hong-Kong

New activity territories shall be negotiated in compliance with direct implantation of the Purchasing Party or on proved strength and efficiency of the local agent concerning already developed business.

EXHIBIT E

QUALITY WARRANTY AND WARRANTY CONDITIONS

The quality warranty and Warranty conditions covered by the agreement between the Parties are defined as follows:

The Selling Party guarantees the goad quality and workmanship of the goods to be delivered The Selling Party's obligation under this guarantee shall be limited to reptacing without charge, ex-works, any part or parts proved defective within the guarantee period and returned to the Selling Party at the Purchasing Pafly's expense, provided that notice of such defect and satisfactory proof thereof is given by the Purchasing Party iinmediately after discovery, and also provided that said products shall not have been taxed beyond their normal capacity and shall in all respects have been operated and maintained in a normal and adequate manner. The guarantee period is for 5 (five) years after shipment from the Selling Party's plant.

The Selling Party's obligation in this respect shall not apply to nor include any of said products or parts thereof which have been subject to accident, alteration, abuse or misuse and/or are not in an originally Selling Party's good shape andlor are broken. Notwithstanding the foregoing, no guarantee whatsoever:

- Batteries

- Electric Lamps

- LCD

- Plastic Tubes

- Springs

- Printer head

and other expendable materials and parts and any material and part which by nature of application has an unpredictable time of life.

Any equipment which,

- uses, in the customer's premises, other reagents than those recommended and sold by the Selling Party

- is connected on other devices than those recommended and sold by the Selling Party, will automatically lose all the Manufacturer's guarantees.

No guarantee other than set forth above is given nor shall any be implied.

The Selling Party accepts no contingent liability and shall in no event be liable for consequential damages.

The Purchasing Party agrees to send back to the Selling Party's address, at the Purchasing Party's cost. the s are parts which need to be repaired or replace under warranty conditions with the necessary following information:

1) Failing part origin :

- Date of the fail

- Equipment Type

- Serial number of the equipment

- Date of installation

- Program version

- Customer's address

2) Established defects of the failing part

3) The entire part and all sub-assemblies and accessories.

The Selling Party will replace any part or parts which prove defective and which are in compliance with the warranty conditions in the shortest delay only after receipt of the above information and parts from the Purchasing Party.

EXHIBIT F

MINIMUM PURCHASE REQUIREMENTS

1.) MELET

	Abaxis Instruments	Discs
First Year Initial Order	100 50	TBD
Second Year	100	TBD
Third Year	100	TBD

1.) ABAXIS

	Melet Instruments	Reagents
First Year Initial Order	300 75	TBD
Second Year	300	TBD
Third Year	400	TBD

MODIFICATION TO LOAN AND SECURITY AGREEMENT

This Third Modification to Loan and Security Agreement (this "Modification") is entered into by and between Abaxis, Inc., a California corporation ("Borrower") and COMERICA BANK-CALIFORNIA, a California banking corporation ("Bank") as of this 21st day of October 2002 at San Jose, California.

RECITALS

This Modification is entered into upon the basis of the following facts and understandings of the parties, which facts and understandings are acknowledged by the parties to be true and accurate:

Bank and Borrower previously entered into a Loan and Security Agreement (Accounts and Inventory) dated March 13, 2002 which was subsequently amended pursuant to those certain modification agreements each dated March 29, 2002. The Loan and Security Agreement and each modification shall collectively be referred to herein as the "Agreement."

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as set forth below.

AGREEMENT

1. Incorporation by Reference. The Recitals and the documents referred to therein are incorporated herein by this reference. Except as otherwise noted, the terms not defined herein shall have the meaning set forth in the Agreement.

2. Modification to the Agreement. Subject to the satisfaction of the conditions precedent as set forth in Section hereof, the Agreement is hereby modified as set forth below.

   A. The first paragraph of Section 2.2 is hereby deleted in its entirety and replaced with the following:

   "2.2 Except as hereinbelow provided, the Credit shall bear interest, on the Daily Balance owing, at a fluctuating rate of interest equal to the Base Rate minus one quarter (-0.25%) percentage points per annum, or at the Libor Rate plus two and one-half (2.50%) percentage points, as determined in accordance with the Libor Addendum to the Loan and Security Agreement attached hereto and incorporated herein by this reference."

   B. Section 6.9(a) is hereby deleted in its entirety and replaced with the following:

   "6.9 (a). Borrower will not make any distribution or declare or pay any dividend (in stock or in cash) to any shareholder or on any of its capital stock, of any class, whether now or hereafter outstanding, or purchase, acquire, repurchase, or redeem or retire any such capital stock; provided, however, that i) Borrower may make non-cash distributions and dividends up to an amount required by the terms of the Preferred Stock; ii) Borrower may make cash distributions and dividends not to exceed 25% of net profit after taxes on an annual basis; and iii) Borrower may make cash distributions and dividends not to exceed 50% of net profit after taxes on an annual basis; iv) Borrower may make cash distributions and dividends not to exceed 100% of net profit after taxes through the period ending March 31, 2003 if the Line of Credit has a zero balance prior to and for a period of 30 days following such distributions and dividends; and v) to the extent that and so long as Borrower is an entity that is not directly subject to Federal income taxation and with respect to which any earnings are attributable ratably to each Person with an ownership interest in Borrower, Borrower may make distributions to each such Person in an amount necessary to pay each such Person's income tax resulting from such ownership interest in Borrower, and; provided, further, that, promptly upon request of Bank, Borrower shall cause each such Person to provide Bank with copies of its tax return to substantiate any such distribution;"

3. Conditions Precedent to the Modification. The effectiveness of this Modification is conditioned upon receipt by Bank of this Modification, and any other documents which Bank may require to carry out the terms hereof, which shall include without limit:

   (a) A legal documentation fee of $250, plus any Bank Expenses incurred through the date of this Modification;

(b) such other documents and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

4. Legal Effect. The effectiveness of this Modification is conditioned upon receipt by Bank of this Modification, and any other documents which Bank may require to carry out the terms hereof. Except as specifically set forth in this Modification, all the terms and conditions of the Agreement remain in full force and effect.

5. Integration. This is an integrated Modification and supersedes all prior negotiations and agreements regarding the subject matter hereof. All amendments hereto must be in writing and signed by the parties.

IN WITNESS WHEREOF, the parties have agreed as of the date first set forth above.

ABAXIS, INC.,

a California corporation

By: /s/ Alberto Santa Ines

Title: V.P. of Finance and CFO

COMERICA BANK-CALIFORNIA,

a California banking corporation

By: /s/ Florina Sy

Title: Corporate Banking Officer

LIBOR

ADDENDUM TO LOAN AND SECURITY AGREEMENT

This Addendum to Loan and Security Agreement (this "Addendum") is entered into as of this 21st day of October, 2002, by and between Comerica Bank-California, a California banking corporation ("Bank") and Abaxis, Inc., a California corporation ("Borrower"). This Addendum supplements the terms of the Loan and Security Agreement dated March 13, 2002.

1. Definitions.

a. Advance. As used herein, "Advance" means a borrowing requested by Borrower and made by Bank under the Note, including a LIBOR Option Advance and/or a Base Rate Option Advance.

b. Business Day. As used herein, "Business Day" means any day except a Saturday, Sunday or any other day designated as a holiday under Federal or California statute or regulation.

c. LIBOR. As used herein, "LIBOR" means the rate per annum (rounded upward if necessary, to the nearest whole 1/8 of 1%) and determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Base LIBOR}}{100\% - \text{LIBOR Reserve Percentage}}$$

(1) "Base LIBOR" means the rate per annum determined by Bank at which deposits for the relevant LIBOR period would be offered to Bank in the approximate amount of the relevant LIBOR Option Advance in the inter-bank LIBOR market selected by Bank, upon request of Bank at 10:00 a.m. California time, on the day that is the first day of such LIBOR Period.

(2) "LIBOR Reserve Percentage" means the reserve percentage prescribed by the Board of Governors of the Federal Reserve System (or any successor) for "Eurocurrency Liabilities" (as defined in Regulation D of the Federal Reserve Board, as amended), adjusted by Bank for expected changes in such reserve percentage during the applicable LIBOR Period.

d. LIBOR Business Day. As used herein, "LIBOR Business Day" means a Business day on which dealings in Dollar deposits may be carried out in the interbank LIBOR market.

e. LIBOR Period. As used herein, "LIBOR Period" means, with respect to a LIBOR Option Advance:

(1) initially, the period commencing on, as the case may be, the date the Advance is made or the date on which the Advance is converted to a LIBOR Option Advance, and continuing for, in every case, a thirty (30), sixty (60) or ninety (90) day period thereafter so long as the LIBOR Option is quoted for such period in the applicable interbank LIBOR market, as such period is selected by Borrower in the notice of Advance as provided in the Note or in the notice of conversion as provided in this Addendum; and

(2) thereafter, each period commencing on the last day of the next preceding LIBOR Period applicable to such LIBOR Option Advance and continuing for, in every case, a thirty (30), sixty (60) or ninety (90) day period thereafter so long as the LIBOR Option is quoted for such period in the applicable interbank LIBOR market, as such period is selected by Borrower in the notice of continuation as provided in this Addendum.

f. Note. As used herein, "Note" means the Loan and Security Agreement dated March 13, 2002.

g. Regulation D. As used herein, "Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System as amended or supplemented from time to time.

h. Regulatory Development. As used herein, "Regulatory Development" means any or all of the following: (i) any change in any law, regulation or interpretation thereof by any public authority (whether or not having the force of law); (ii) the application of any existing law, regulation or the interpretation thereof by any public authority (whether or not having the force of law); and (iii) compliance by Bank with any request or directive (whether or not having the force of law) or any public authority.

2. Interest Rate Options. Borrower shall have the following options regarding the interest rate to be paid by Borrower on Advances under the Note:

a. A rate equal to two and one half percent (2.50%) above Bank's LIBOR, (the "LIBOR Option"), which LIBOR Option shall be in effect during the relevant LIBOR Period; or

b. A rate equal to one quarter of one percent (-0.25%) below the "Base Rate" as referenced in the Note and quoted from time to time by Bank as such rate may change from time to time (the "Base Rate Option").

3. LIBOR Option Advance. The minimum LIBOR Option Advance will not be less than Five Hundred Thousand and 00/100 Dollars ($500,000) for any LIBOR Option Advance.

4. Payment of Interest on LIBOR Option Advances. Interest on each LIBOR Option Advance shall be payable pursuant to the terms of the Note. Interest on such LIBOR Option Advance shall be computed on the basis of a 360-day year and shall be assessed for the actual number of days elapsed from the first day of the LIBOR Period applicable thereto but not including the last day thereof.

5. Bank's Records Re: LIBOR Option Advances. With respect to each LIBOR Option Advance, Bank is hereby authorized to note the date, principal amount, interest rate and LIBOR Period applicable thereto and any payments made thereon on Bank's books and records (either manually or by electronic entry) and/or on any schedule attached to the Note, which notations shall be prima facie evidence of the accuracy of the information noted.

6. Selection/Conversion of Interest Rate Options. At the time any Advance is requested under the Note and/or Borrower wishes to select the LIBOR Option for all or a portion of the outstanding principal balance of the Note, and at the end of each LIBOR Period, Borrower shall give Bank notice specifying (a) the interest rate option selected by Borrower; (b) the principal amount subject thereto; and (c) if the LIBOR Option is selected, the length of the applicable LIBOR Period. Any such notice may be given by telephone so long as, with respect to each LIBOR Option selected by Borrower, (i) Bank receives written confirmation from Borrower not later than three (3) LIBOR Business Days after such telephone notice is given; and (ii) such notice is given to Bank prior to 10:00 a.m., California time, on the first day of the LIBOR Period. For each LIBOR Option requested hereunder, Bank will quote the applicable fixed LIBOR Rate to Borrower at approximately 10:00 a.m., California time, on the first day of the LIBOR period. If Borrower does not immediately accept the rate quoted by Bank, any subsequent acceptance by Borrower shall be subject to a redetermination of the rate by Bank; provided, however, that if Borrower fails to accept any such quotation given, then the quoted rate shall expire and Bank shall have no obligation to permit a LIBOR Option to be selected on such day. If no specific designation of interest is made at the time any Advance is requested under the Note or at the end of any LIBOR Period, Borrower shall be deemed to have selected the Base Rate Option for such Advance or the principal amount to which such LIBOR Period applied. At any time the LIBOR Option is in effect, Borrower may, at the end of the applicable LIBOR Period, convert to the Base Rate Option. At any time the Base Rate Option is in effect, Borrower may convert to the LIBOR OPTION, and shall designate a LIBOR Period.

7. Default Interest Rate. From and after the maturity date of the Note, or such earlier date as all principal owing hereunder becomes due and payable by acceleration or otherwise, the outstanding principal balance of the Note shall bear interest until paid in full at an increased rate per annum (computed on the basis of a 360-day year, actual days elapsed) equal to three percent (3.00%) above the rate of interest from time to time applicable to the Note.

8. Prepayment. In the event that the LIBOR Option is the Applicable Interest Rate for all or any part of the outstanding principal balance of the Note, and any payment or prepayment of any such outstanding principal balance of the Note shall occur on any day other than the last day of the LIBOR Period then applicable thereto (whether voluntarily, by acceleration, required payment, or otherwise), or if Borrower elects the LIBOR Option as the Applicable Interest Rate for all or any part of the outstanding principal balance of the Note in accordance with the terms and conditions hereof, and, subsequent to such election, but prior to the commencement of the LIBOR Period applicable thereto, Borrower revokes such election for any reason whatsoever, of if the Applicable Interest Rate in respect of any outstanding principal balance of the Note hereunder shall be changed, for any reason whatsoever, from the LIBOR Option to the Base Rate Option prior to the last day of the LIBOR Period applicable thereto, or if Borrower shall fail to make any payment of principal or interest hereunder at any time that the LIBOR Option is the Applicable Interest Rate hereunder in respect of such outstanding principal balance of the Note, Borrower shall reimburse Bank, on demand, for any resulting loss, cost or expense incurred by Bank as a result thereof, including, without limitation, any such loss, cost or expense incurred in obtaining, liquidating, employing, or redeploying deposits from third parties. Such amount payable by Borrower to Bank may include, without limitation, an amount equal to the excess, if any, of (a) the amount of interest which would have accrued on the amount so prepaid, or not

so borrowed, refunded or converted, for the period from the date of such prepayment or of such failure to borrow, refund or convert, through the last day of the relevant LIBOR Period, at the applicable rate of interest for such outstanding principal balance of the Note, as provided under this Note, over (b) the amount of interest (as reasonably determined by Bank) which would have accrued to Bank on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. Calculation of any amounts payable to Bank under this paragraph shall be made as though Bank shall have actually funded or committed to fund the relevant outstanding principal balance of the Note hereunder through the purchase of an underlying deposit in an amount equal to the amount of such outstanding principal balance of the Note and having a maturity comparable to the relevant LIBOR Period; provided, however, that Bank may fund the outstanding principal balance of the Note hereunder in any manner it deems fit and the foregoing assumptions shall be utilized only for the purpose of the calculation of amounts payable under this paragraph. Upon the written request of Borrower, Bank shall deliver to Borrower a certificate setting forth the basis for determining such losses, costs and expenses, which certificate shall be conclusively presumed correct, absent manifest error. Any prepayment hereunder shall also be accompanied by the payment of all accrued and unpaid interest on the amount so prepaid. Any outstanding principal balance of the Note which is bearing interest at such time at the Base Rate Option may be prepaid without penalty or premium. Partial prepayments hereunder shall be applied to the installments hereunder in the inverse order of their maturities.

9. Hold Harmless and Indemnification. Borrower agrees to indemnify Bank and to hold Bank harmless from, and to reimburse Bank on demand for, all losses and expenses which Bank sustains or incurs as a result of (i) any payment of a LIBOR Option Advance prior to the last day of the applicable LIBOR Period for any reason, including, without limitation, termination of the Note, whether pursuant to this Addendum or the occurrence of an Event of Default; (ii) any termination of a LIBOR Period prior to the date it would otherwise end in accordance with this Addendum; or (iii) any failure by Borrower, for any reason, to borrow any portion of a LIBOR Option Advance.

10. Funding Losses. The indemnification and hold harmless provisions set forth in this Addendum shall include, without limitation, all losses and expenses arising from interest and fees that Bank pays to lenders of funds it obtains in order to fund the loans to Borrower on the basis of the LIBOR Option(s) and all losses incurred in liquidating or re-deploying deposits from which such funds were obtained and loss of profit for the period after termination. A written statement by Bank to Borrower of such losses and expenses shall be conclusive and binding, absent manifest error, for all purposes. This obligation shall survive the termination of this Addendum and the payment of the Note.

11. Regulatory Developments or Other Circumstances Relating To Illegality or Impracticality of LIBOR. If any Regulatory Development or other circumstances relating to the interbank Euro-dollar markets shall, at any time, in Bank's reasonable determination, make it unlawful or impractical for Bank to fund or maintain, during any LIBOR Period, to determine or charge interest rates based upon LIBOR, Bank shall give notice of such circumstances to Borrower and:

(i) In the case of a LIBOR Period in progress, Borrower shall, if requested by Bank, promptly pay any interest which had accrued prior to such request and the date of such request shall be deemed to be the last day of the term of the LIBOR Period; and

(ii) No LIBOR Period may be designated thereafter until Bank determines that such would be practical.

12. Additional Costs. Borrower shall pay to Bank from time to time, upon Bank's request, such amounts as Bank determines are needed to compensate Bank for any costs it incurred which are attributable to Bank having made or maintained a LIBOR Option Advance or to Bank's obligation to make a LIBOR Option Advance, or any reduction in any amount receivable by Bank hereunder with respect to any LIBOR Option or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Developments, which (i) change the basis of taxation of any amounts payable to Bank hereunder with respect to taxation of any amounts payable to Bank hereunder with respect to any LIBOR Option Advance (other than taxes imposed on the overall net income of Bank for any LIBOR Option Advance by the jurisdiction where Bank is headquartered or the jurisdiction where Bank extends the LIBOR Option Advance; (ii) impose or modify any reserve, special deposit, or similar requirements relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, Bank (including any LIBOR Option Advance or any deposits referred to in the definition of LIBOR); or (iii) impose any other condition affecting this Addendum (or any of such extension of credit or liabilities). Bank shall notify Borrower of any event occurring after the date hereof which entitles Bank to compensation pursuant to this paragraph as promptly as practicable after it obtains knowledge thereof and determines to request such compensation. Determinations by Bank for purposes of this paragraph, shall be conclusive, provided that such determinations are made on a reasonable basis.

13. Legal Effect. Except as specifically modified hereby, all of the terms and conditions of the Note remain in full

force and effect.

IN WITNESS WHEREOF, the parties have agreed to the foregoing as of the date first set forth above.

ABAXIS, INC.,

a California corporation

By: /s/ Alberto Santa Ines

Title: V.P. of Finance and CFO

COMERICA BANK-CALIFORNIA,

a California banking corporation

By: /s/ Florina Sy

Title: Corporate Banking Officer

Exhibit 99.1

Certification of Chief Executive Officer

I, Clinton H. Severson, Chief Executive Officer of Abaxis, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 12, 2003

By: /s/ Clinton H. Severson
Clinton H. Severson
President and
Chief Executive Officer

Exhibit 99.2

Certification of Chief Financial Officer

I, Alberto R. Santa Ines, Chief Financial Officer of Abaxis, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Dated: February 12, 2003

By: /s/ Alberto R. Santa Ines
Alberto R. Santa Ines
Vice President, Finance and
Chief Financial Officer