



FORM 10-K405

ABAXIS INC - ABAX

Filed: June 30, 1997 (period: March 31, 1997)

Annual report. The Regulation S-K Item 405 box on the cover page is checked

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[EX-10.20 \(EMPLOYMENT AGREEMENT\)](#)

[EX-10.21 \(A. Tenant and Landlord are presently parties Agreement dated as of March 11, 1992, as amended to Lease of even date therewith \(co\)](#)

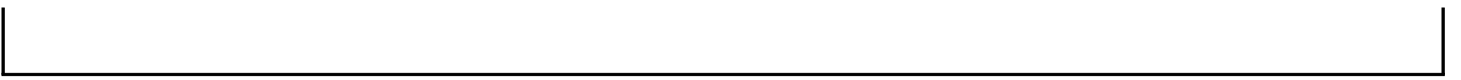
[EX-10.22 \(SECURITY AGREEMENT\)](#)

[EX-22.1 \(Published report regarding matters submitted to vote of security holders\)](#)

[EX-23.1 \(Consents of experts and counsel\)](#)

[EX-23.2 \(S-8 No. 33-49758\) pertaining to the 1989 Stock Directors Stock Option Plan and the Individual and the Registration Statements \(Form S-8 Nos\)](#)

[EX-27.1](#)



SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended March 31, 1997 or

Transition report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1937 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 of Incorporation) (I.R.S. Employer Identification No.)

1320 Chesapeake Terrace
Sunnyvale, CA 94089
(Address of principal executive offices)
Registrant's telephone number, including area code, is (408) 734-0200
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, No par value
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of June 16, 1997 was approximately \$33,648,540 based upon the closing sale price reported for such date on the NASDAQ National Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purpose.

The number of shares of the registrant's Common Stock outstanding as of June 16, 1997, was 11,854,153.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Proxy Statement for the Annual Meeting of Shareholders of Abaxis, Inc. tentatively scheduled to be held on September 9, 1997 are incorporated by reference in Part III of this Report on Form 10-K.

This report, including exhibits, consists of 72 pages. The exhibit index is located on page 44.

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PART I

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 that reflect the Company's current view with respect to future events and financial performance. The future events described in these statements involve risks and uncertainties, among them risks and uncertainties related to the market acceptance of its products and continuing development of its products, including required FDA clearance and other government approvals, risks associated with manufacturing and distributing its products on a commercial scale, including complying with Federal and State food and drug regulations, general market conditions and competition. When used in this report, the words "anticipates", "believes", "expects", "intends", "plans", "future", and similar expressions identify forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of factors set forth throughout this document.

ITEM 1. BUSINESS

GENERAL

Abaxis, Inc. (the "Company") develops, manufactures and markets portable blood analysis systems for use in any patient-care setting to provide clinicians with rapid blood constituent measurements. The Company's products consist of a compact 6.9 kilogram analyzer and a series of single-use plastic disks called reagent discs that contain 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. The Company currently markets this system for veterinary use under the name VetScan(R) and in the human medical market under the name Piccolo(R).

The Company offers its point-of-care blood analyzer system with a total of 18 test methods. The Company's repertoire of test methods includes albumin, amylase, alkaline phosphates (ALP), alanine aminotransferase (ALT), aspartate aminotransferase (AST), direct bilirubin, calcium, creatinine, creatine kinase (CK), glucose, glutamyl transferase (GGT), potassium, total bilirubin, total cholesterol, urea nitrogen (BUN), total protein, uric acid, and thyroxine (T4). Thirteen of these tests are marketed for both human and veterinary markets, while two tests, uric acid and direct bilirubin, are marketed only in the human market, and three tests, CK, T4 and potassium, are marketed exclusively in the veterinary market. The Company markets its reagent products by configuring these 18 test methods in panels that are designed to meet a variety of clinical diagnostic needs. The Company currently offers seven multi-test reagent disc products in the human medical market and six reagent discs in the veterinary market.

During fiscal 1997, the Company continued to be successful in the US veterinary market. By the end of the fiscal year, the Company had installed a total of 767 VetScan systems in the US, an 83% increase from its customer base of 409 VetScan systems a year earlier. The addition of two national institutional customers, Veterinary Centers of America ("VCA") and VetSmart, contributed significantly to the Company's new system placements. Both customers purchased the Company's VetScan systems to replace systems from the Company's competitors. The Company began selling its VetScan systems to VCA hospitals in September 1996 and through May 1997, a total of 88 systems were installed in a number of VCA's 155 free-standing animal hospitals. In March 1997, the Company signed an agreement with VetSmart, to provide during the next twelve months, 105 VetScan analyzers and 80,000 reagent discs for use in VetSmart pet hospitals. Through May 1997, the Company has installed 91 VetScan systems in VetSmart pet hospitals located in PetSmart stores nationwide.

The Company has targeted branches of the US military as potential customers for the Company's Piccolo Point-of-Care Blood Analyzer based on the features of the Piccolo systems and the special requirements of the military environment. The Company has been involved in rigorous studies with the US Navy since 1995, evaluating the

feasibility and clinical utility of the Piccolo systems in the often rugged environment encountered by the Navy. In March 1997, the Company announced that it had been awarded a contract with a potential contract value of up to \$7.5 million to provide the US Navy and the Marine Corps its Piccolo Point-of-Care Blood Analyzer and reagent disc products. The contract calls for a maximum order of approximately 345 Piccolo systems and 250,000 reagent discs. Through May 1997, the Company has shipped 72 Piccolo analyzers under this contract and another 43 analyzers have been ordered, but not yet shipped. There can be no assurance that the Company will receive orders for the maximum order quantity under the conditions of the contract.

The Company believes that its current menu of 15 reagent test methods for its Piccolo systems are suitable for certain niche human market segments, such as the military, but not broad enough to fulfill the diagnostic needs of physician's office practices. One of the key factors to the Company's future success depends on the Company's ability to identify and develop new test methods that will allow the Company to penetrate the human diagnostic market. During fiscal 1997, the Company received 510(k) clearance from the Food and Drug Administration ("FDA") for its GGT test. Completion of GGT allowed the Company to release the Liver Panel Plus reagent disc product in October 1996, which is currently being sold to the US Navy. The Company also completed development of CK during fiscal 1997 which allowed the Company to release a new Equine Profile reagent disc product into the veterinary market in June 1997. This method will be entered into clinical trials during fiscal 1998 for inclusion in new reagent disc products for the medical market. The Company has identified ten additional test methods that are likely candidates to enhance its ability to penetrate the human medical market, as well as broadening its market coverage in the veterinary market. In January 1997, the Company allocated resources to begin the feasibility phase to develop four electrolyte test methods: bicarbonate, chloride, potassium, and sodium. The Company expects to conclude the feasibility phase of these four tests by the end of summer 1997 and if the results are favorable, proceed with developing these tests into marketable products for both the human and the veterinary markets. The Company estimates that development of these four test methods as a group will take approximately 18 months to complete and should be available during the second half of fiscal 1999. In addition to investing its own resources in expanding the test menu, the Company signed a nonbinding letter of intent with Teramecs Co., Ltd. and Daiichi Pure Chemicals Co., Ltd. in April 1997 to jointly develop additional test methods for use on the Piccolo analyzer. The product development collaboration will focus on commercializing targeted methods for lipids, proteins, and enzymes. The Company expects to sign a definitive agreement in 1997. There can be no assurance that the Company will be able to develop these new test methods, conclude a definitive agreement with Teramecs and Daiichi Pure Chemicals, or if the test methods were developed, be able to successfully market these methods.

Abaxis' focus for the coming year will continue to be in markets where the Company can receive immediate economic rewards while at the same time developing new products that will allow the Company to expand into other market segments in the following year. Domestically, the Company expects to continue to focus on growing its presence in the veterinary markets, fulfilling the Company's contract with the Navy, and expanding its marketing effort to the other military branches. Internationally, the Company will continue to focus its sales effort in Europe and Japan as well as explore markets in new countries in Asia and Latin America.

IN-VITRO DIAGNOSTIC TESTING

More than 20 billion blood tests are performed annually worldwide. These blood tests are performed mostly in commercial laboratories, hospitals, urgent care centers or physicians' offices. Sales of in-vitro diagnostic products for use by these facilities to conduct blood testing total approximately \$15 billion per year. Although over 1,000 different tests are performed on blood, fewer than 50 different tests account for 70% of all blood testing. These tests are considered the "gatekeepers" of medical care as physicians routinely use them to diagnose and monitor the treatment of disease. A significant portion of the top 50 tests prescribed by physicians fall in the clinical chemistry category. In-vitro diagnostic products sold for the purpose of conducting clinical chemistry tests represent approximately 32% of the total \$15 billion market, while diagnostic testing products for immunoassay represent another 33% of the market. With such a large volume of testing, centralized

laboratories using automated batch testing equipment have become the norm in providing physicians the blood test information they need to make medical treatment decisions.

The current worldwide focus on reducing medical care costs while maintaining quality of care has encouraged the movement of blood testing out of the central laboratories into the patient care setting. This trend began in the early 1980s with the introduction of handheld devices that could perform one or two tests. In the mid-1980s, small desktop instruments such as the Abbott VISION and the Kodak DT60 (now marketed by Johnson and Johnson) were introduced for use in doctors' offices and hospital satellite laboratories. While these products allowed testing nearer the patient, they still required skilled technicians and were limited to performing one test at a time. As a result, multiple tests could not be performed economically and turnaround time was not significantly enhanced.

In the United States, there are approximately 40,000 veterinarians who generate annual billings of approximately \$600 million in diagnostics. In the veterinary market in the last two decades, blood testing has gained more importance to the veterinarian to provide them invaluable diagnostic information. Veterinarians started out by relying on the services of the centralized laboratories. The same factors affecting the human diagnostic market also impact veterinary practices. Some of the small desk top instruments such as the Dupont Analyst, Kodak DT6, and Idexx VetTest have also been marketed to veterinarians to perform in-house blood testing. While these products have made in-house testing possible for veterinarians, they still require skilled technicians to properly use and maintain these products. As a result, based on the Company's marketing research, 65% of the veterinarians are still not converted to in-house testing even though the advantages of in-house testing are clearly evident.

Abaxis believes that a key element of the patient-centered, cost-constrained health care model in the 1990s and beyond will be the availability of blood analysis systems in the patient care setting that are easily and reliably operated by caregivers and provide accurate, real time results for making immediate clinical decisions. The optimal system uses whole blood, has built-in calibration and quality control, provides quick turn around time and is portable and low in cost. In addition, the optimal near-patient system should be easy to use by people with no special training and capable of transmitting test results instantly to a patient information management system.

Abaxis has developed a blood analysis system incorporating all of these criteria into a 6.5 kilogram analyzer and a series of menu-specific, single-use reagent discs. The system is essentially a compact portable laboratory that can be easily carried to the patient. Each reagent disc is pre-configured with multiple analytes and contains all the reagents necessary to perform a fixed menu of tests. Taking the system to the patient care site instead of shipping the sample to a central laboratory makes blood testing and analysis as easy as measuring the patient's blood pressure, temperature, and heart rate. Additional advantages of near-patient testing include eliminating errors from sample handling, transcription, and transportation, which, studies have shown, may cause up to 85% of reporting errors.

ABAXIS PRODUCTS

Point-of-Care Blood Analyzer

The Company's Point-of-Care Blood Analyzer is a portable spectrophotometer, which is a device that measures the absorption of light at various wavelengths. A variable speed motor is used to spin the reagent disc for sample processing. The chemical reactions in the disc's cuvettes are measured optically by detecting the light absorbance of the solutions in the cuvettes at pre-determined wavelengths. The absorbances are converted to clinically relevant units by the measurement microprocessor. Results are stored by the interface microprocessor, sent to a RS232 port and printed on result cards by an internal thermal printer. The features of the analyzer include small required sample size (100 (mu)L) of whole blood, serum or plasma, intelligent quality control system that includes many self-test functions to ensure quality results, built-in instrument self calibration, built-in

printer, quick turn-around time of less than 15 minutes, minimal operational training and ease of information transmission using a computer port on the analyzer. The Company markets this analyzer for veterinary use under the name VetScan and for the human medical market under the name Piccolo.

Reagent Discs

The reagent discs are designed to handle almost all technical steps of blood chemistry testing automatically. The discs first separate a whole blood sample into plasma and blood cells, meter the required quantity of plasma and diluent, mix the plasma and diluent, and deliver the mixture to the reagent chambers, called cuvettes, along the disc perimeter. The diluted plasma dissolves and mixes with the reagent beads initiating the chemical reactions which are monitored by the analyzer. The discs are 8-cm diameter, single-use devices constructed from three ultrasonically welded injection molded plastic parts. The base and the middle piece create the chambers, cuvettes, and passageways for processing the whole blood and mixing plasma with diluent and reagents. The top piece, referred to as the bar code ring, is imprinted with bar codes that contain disc-specific calibration information. In the center of the disc is a plastic diluent container sealed with polyethylene-laminated foil. Spherical lyophilized reagent beads are placed in the cuvettes during disc manufacturing. Upon completion of the analysis, used discs may be placed back into their foil pouches to minimize human contact with blood prior to proper disposal.

To perform a panel of tests, the operator collects a blood sample via finger puncture or venipuncture (the latter requiring a trained phlebotomist). The operator then transfers the sample into the reagent disc. The operator places the disc into the analyzer drawer, and enters patient, physician, and operator identification numbers. The analyzer spins the disc to separate cells from plasma, meters and mixes plasma and diluent, distributes diluted plasma to the cuvettes, and monitors chemical reactions. In less than 15 minutes, results are printed out on a result card with an adhesive backing for inclusion in the patient's medical record. A computer port enables transmission of patient results to external computers for data management.

The Company introduced its Piccolo system to the marketplace in November 1995 with two reagent discs, General Health Panel 8 and General Health Panel 11. In November 1996, the Company introduced the Liver Panel Plus 9 disc, which was enabled by the 510(k) clearance of the GGT test received from the FDA in September 1996. Subsequently, the Company has released four other differently configured reagent disc products to meet different physicians' needs, mostly in the international markets. As of June 1997, a total of seven reagent disc products are marketed worldwide for use with the Piccolo system.

The VetScan system was introduced in the US veterinary market in July 1994. The Company initially launched the system with the Diagnostic Profile, a nine-test reagent product. Since then, the Company has added new test methods and new reagent disc products targeted to fulfill different veterinary diagnostic needs. The newest addition to the VetScan family of reagent products was the Equine Profile introduced to the market in June 1997. The Equine Profile was optimized with test methods useful for providing indications of the health condition of horses, particularly in the areas of hepatic dysfunction and muscle damage. As of June 1997, the Company offers a total of six reagent disc products to its veterinary customers.

The following table exhibits all the reagent disc products marketed by the Company today in both the human medical and veterinary markets worldwide.

[REAGENT DISC PRODUCTS TABLE]

Orbos Process

The dry reagents used in the Company's reagent discs are produced using a proprietary technology called the Orbos Discrete Lyophilization Process. This process allows the production of an accurate, precise amount of active chemical ingredient in the form of a soluble bead. The Orbos process involves flash-freezing a drop of liquid reagent to form a solid bead and then freeze-drying the bead to remove water. The Orbos beads are stable in dry form and dissolve rapidly in aqueous solutions. The Company believes that the Orbos process has broad applications in products where delivery of active ingredients in a stable, pre-metered format is desired. The Company currently has a licensing agreement with Pharmacia Biotech and a supply contract with Becton Dickinson and Company for products produced using the Orbos process. Abaxis is continuing to investigate potential applications with other companies. There can be no assurance that the Company will be able to discover and/or develop any new applications.

Future Products

Abaxis plans to develop a series of reagent discs with various tests for use with the Piccolo and VetScan systems. In January 1997, the Company began feasibility studies for four electrolyte tests: bicarbonate, chloride, potassium, and sodium. The Company expects to conclude the feasibility phase of these four tests by the end of summer 1997 and, if the results are favorable, proceed with developing these tests into marketable products for both the human and the veterinary markets. For the human market, the Company plans on incorporating these tests into new panels consistent with the codes in the 1998 version of the new Current Procedures Terminology ("CPT") manual published by the American Medical Association ("AMA"). These new CPT codes represent a set of tests performed in standardized panels released in late March 1997, by the Health Care Financing Administration ("HCFA"), the federal agency that administers the Medicare and Medicaid programs. The American Medical Association originally proposed eight standardized panels and the HCFA adopted four of these panels, with some modifications, effective July 1, 1997. The four fixed-test panels are: electrolytes, comprehensive metabolic, hepatic function, and basic metabolic. Abaxis currently has all the tests for the hepatic function panel, and will have all required tests for the additional three panels with the development of the four electrolyte tests.

Additional future test methods development for other disc products will be targeted at specific applications based on fulfilling clinical needs. The Company's current focus of test methods development is in clinical chemistry. In addition to clinical chemistry, the Company has demonstrated its ability to perform immunoassay tests in its blood analysis system by successfully developing its Thyroxine (T4) test in the veterinary market. The Company believes other homogeneous immunoassay methods can be performed in its discs to measure a wide assortment of low concentration blood analytes, such as therapeutic drugs and drugs of abuse.

There can be no assurance that Abaxis will be able to develop any of these potential products. While the Company believes that its technology will allow it to develop reagent disc products in the future to provide a variety of additional blood tests, there can be no assurance that such future products will be developed, that such products will receive required regulatory clearance, or that the Company will be able to manufacture or market such products successfully.

CUSTOMER SEGMENTS AND DISTRIBUTION

The Company has been marketing its VetScan Systems products for less than three years and has only recently begun marketing its Piccolo System products. Accordingly, the Company has very limited marketing and distribution experience. Further, the Company has limited resources to devote to marketing and distribution, including building a sales and marketing organization or establishing an extensive distribution network. There can be no assurance that the Company can build a successful sales and marketing organization, establish effective distribution arrangements, that such arrangements will be successful in marketing Abaxis products, or that the costs associated with marketing and distribution will not be excessive. Although the Company has established some international distributors, it has limited experience and resources in marketing and distributing its products in international markets. There can be no assurance that the Company will be successful in marketing the Piccolo System and VetScan System products internationally.

Customer Segments

Abaxis sells its Point-of-Care Blood Analyzer products and reagent discs either directly or through distributors depending on the needs of the customer segment. In the delivery of human or veterinary care there are many kinds of providers and a multitude of sites where Abaxis products could be used as an alternative to relying on a central laboratory for blood test information. The Company believes that its current Piccolo System menu of 15 reagent test methods are suitable for certain niche market segments of the human medical market. These niche market segments include military installations (ships, field hospitals and mobile care units), urgent care and walk-in clinics (free-standing or hospital-connected), home care providers (national, regional or local), nursing homes, acute care hospitals, ambulance companies, dialysis centers, hospital labs and draw stations. The Company believes that its veterinary reagent product offerings meet a substantial part of the clinical diagnostic needs of veterinarians. Potential customers for the VetScan System are primarily companion animal hospitals, animal clinics with mixed practices of small animals, birds and reptiles, equine practitioners with mobile facilities and private toxicology laboratories and university and government toxicology research laboratories.

Distribution Within the US

Abaxis sells its products directly to those customers who serve large human patient populations with employed caregivers such as the military, hospitals, and managed care organizations. As a result of health care reform in the US, the Company expects a consolidation of providers with more centralized purchasing of medical products based on the standardization of care and the use of patient outcome studies to influence purchase decision. The Company plans to achieve its direct sales objectives by employing highly skilled sales specialists and eventually sales teams which will need to work closely with providers in performing studies to show that the use of the Piccolo Point-of-Care Blood Analyzer rather than laboratory alternatives can provide better outcomes at less cost.

Abaxis is using distributors for those customers which desire to purchase reagent discs frequently and in small quantities. These distributors also contribute to identifying potential customers and introducing the product, but often need the support of Abaxis personnel in closing the sale. In the US, human and veterinary product distributors are generally of two types - large companies that primarily serve hospitals, clinics and large health maintenance organizations (HMOs) nationwide using multiple warehouses and extensive transportation systems, and smaller companies that provide the daily supplies needed by office-based physicians. In the human market, national firms sell thousands of products, including furniture, capital equipment, surgical instruments and a myriad of consumables. The smaller companies generally direct their product offerings to those items a physician uses daily in caring for primarily ambulatory patients. These firms also may sell lower priced equipment such as diagnostic instruments which are used in conjunction with consumable reagents. The Company currently has non-exclusive distribution agreements with Allegiance Healthcare Corporation (formerly Baxter Healthcare) and Sage London of Canada.

Veterinarians are served similarly to office-based physicians by small local firms, some with national affiliations. The Company currently has a non-exclusive agreement with VedCo, Inc., a national network of 14 independent distributors with 23 sales offices in the US. The Company also has three additional distribution agreements with regional distributors. In addition to selling through distributors, the Company directly supplies its VetScan products to two national institutional customers, VCA, the nation's largest veterinary hospital chain, and VetSmart, the nation's largest chain of veterinary service clinics.

As of March 31, 1997, the Company had limited internal resources in sales and marketing with twelve employees involved in both domestic and international sales activity. In order to more fully realize the market potential for Abaxis products, the Company intends to enter into distribution arrangements with additional distributors as well as pursue direct sales where appropriate. There can be no assurance that any of the Company's distributors will devote the necessary resources to be successful in their efforts to commercialize the Company's products.

Distribution Outside the US.

The Company's international sales and marketing objectives include identifying and defining the market segments in each country by product, and then focusing on specific objectives for each segment in each country. These specific objectives include modification and expansion of distribution and distributor training and monitoring to ensure the attainment of sales goals.

The Company currently has exclusive distribution agreements in the following countries: Argentina, Austria, France, Germany, Greece, Hong Kong, Italy, Japan, Korea, Mexico, New Zealand, the Netherlands, Norway, Portugal, Puerto Rico, South Africa, Spain, Switzerland, and in the United Kingdom. Each distributor agreement contains a number of requirements that must be met to retain exclusivity, including minimum order quantity commitments, trade show and promotion requirements and a specified number of demonstration analyzer requirements. In most cases, the foreign distributors need to either go through an FDA-equivalent approval process or clinical trials/market evaluations with their local opinion leaders in the medical field. Each distributor is responsible for obtaining the required approvals. There can be no assurance that any of the Company's distributors will be successful in obtaining proper approvals for Abaxis products in their respective countries or that these distributors will be successful in marketing Abaxis products. The Company plans to enter into additional distribution agreements to enhance its international distribution base and solidify its international presence. There can be no assurance that the Company will be successful in entering into any additional distributor agreements.

Abaxis is party to a series of agreements with Teramecs, the Company's Japanese distributor, involving funded research, distribution and manufacturing rights and an equity investment by Teramecs in the Company. Under these agreements Abaxis has granted Teramecs, subject to certain restrictions, the exclusive right to distribute Abaxis products in Japan, an option to obtain a license to manufacture the Piccolo systems for resale only to

Abaxis or in Japan and access to future Abaxis technology. Teramecs has provided \$1,000,000 of research funding (which was recognized as revenue by Abaxis in fiscal 1994) and is obligated to purchase minimum quantities of products annually commencing in June 1996 in order to maintain exclusive distribution rights in Japan. In the event Teramecs exercises its option to manufacture Abaxis products, it must pay the Company an additional license fee, purchase from Abaxis the reagent beads for the products it manufactures, and pay royalties on the sale of such products. In August 1996, with the regulatory approval from the Japanese Ministry of Health and Welfare (Koseisho) of the Piccolo system, Teramecs contracted with Daiichi Pure Chemical to provide more extensive market coverage to sell and distribute the Piccolo system in the Japanese human medical markets under the name Lunaspin. During fiscal 1997, Teramecs also completed clinical trials of the Abaxis VetScan system and submitted for regulatory approval to market in Japan. The Company expects regulatory approval of the VetScan system from the Japanese Ministry of Agriculture, Forestry and Fishery (Nosuisho) during the summer of 1997. There can be no assurance of regulatory approval of the VetScan system, or that Teramecs and Daiichi can be successful in marketing any Abaxis products.

COMPETITION

Abaxis' competition includes clinical laboratories, hospitals and independent laboratories and manufacturers of bench top multi-test analyzers and other near-patient test systems. Blood analysis is a well established field in which there are a number of competitors which have substantially greater financial resources and larger, more established marketing, sales and service organizations than the Company. No assurance can be given that the Company's products will be competitive with existing or future products or services of such competitors.

Historically, most human medical testing has been performed in the hospital or commercial laboratory setting. Clinical laboratories have traditionally been effective at processing large panels of tests using skilled technicians and complex equipment. The Company's products compete with the clinical laboratories with respect to range of tests offered, the immediacy of results and cost effectiveness. While Abaxis cannot provide the same range of tests, the Company believes that its products will provide a sufficient breadth of test menus to compete successfully with clinical laboratories on the basis of immediacy of results and cost effectiveness. The Company's products compete with products in the marketplace with respect to ease-of-use, the ability to conduct tests without a skilled technician, the ability to conduct multiple test panels, breadth of tests, built-in calibration and quality control, cost effectiveness and quality of results.

Most of the Company's current and potential competitors have significantly greater financial and other resources than Abaxis, and the Company expects that competition will be intense. In particular, most of these competitors have large sales forces and well-developed channels of distribution. To compete, the Company must develop effective channels of distribution and a focused direct sales force. There is no assurance that the Company will be able to compete successfully.

MANUFACTURING

Abaxis began manufacturing its VetScan products for the commercial market during fiscal 1995. The Company began manufacturing Piccolo products for commercial sale in fiscal 1996. To produce and commercially ship Piccolo products, the Company must have a license to manufacture medical products in the State of California, where the Company conducts its principal manufacturing activities, and have approval from the FDA as a medical device manufacturer. In May 1996, the Company received its license to manufacture from the State of California. In September 1996, the FDA granted the Company's manufacturing facility "in compliance" status, according to the regulations for Good Manufacturing Practices ("GMP") for medical devices. The Company is scheduled for inspection by the FDA and the State of California on a routine basis, typically once every 24 months. Although the Company is not required when manufacturing the VetScan products, to comply with some of the government regulations applicable to the human market, the Company has tried to establish its manufacturing operations with procedures and controls comparable to GMP to ensure the same quality products. There can be no assurance that the Company can successfully pass a re-inspection by the FDA or the State of

California or any other future inspections. There can be no assurance that the Company can comply with all current or future government manufacturing requirements and regulations.

In addition to the development of standardized manufacturing processes and quality control programs for the entire manufacturing process, the Company's manufacturing activities are concentrated in the following three primary areas:

Point-of-Care Blood Analyzer

The analyzer used in the Piccolo and VetScan systems employs a variety of components designed or specified by Abaxis, including a variable speed motor, microprocessors, a liquid crystal display, a result card printer, a spectrophotometer and other electronic components. These components are manufactured by several third party vendors that have been qualified and approved by Abaxis and then assembled by contract manufacturers for Abaxis. The components are assembled at the Abaxis facility into the finished product and completely tested to ensure that the finished product meets product specifications. The analyzer uses technologically advanced components, many of which are available only from single source vendors. During fiscal 1997, the Company was successful in identifying potential alternate suppliers of some critical components and will continue to work on qualifying additional vendors to protect its source of supply. There can be no assurance that the Company will not experience a material interruption of supply of components from single source vendors.

Reagent Disc

The molded plastic disks used in the manufacture of the reagent disc are manufactured to the Company's specification by an established injection molding manufacturer. To achieve the precision required for accurate test results, the disks must be molded to very narrow tolerances. The Company believes only a few manufacturers are capable of manufacturing to such tolerances. To date, the Company has qualified only one manufacturer to mold the disks and only has a single mold. The Company expects to qualify a second production mold by the end of summer 1997 to better protect its supply source. While the Company has duplicated parts of the disk molding tools to strengthen and better protect its line of supply, the inability of its injection molding manufacturer to supply sufficient disks would have a material adverse impact on the Company's results of operations.

The Company assembles the reagent discs by using the molded plastic disks, loading the disk with reagents and then ultrasonically welding together the top and bottom pieces. The Company has begun development of an automated disc assembly line ("autoline") to provide anticipated capacity for future demand and to improve production efficiency. The Company expects to have this autoline fully operational by the end of fiscal 1998. The autoline is expected to double the Company's capacity while improving quality and yield. The qualification of the autoline could involve significant time and cost and could entail some initial unforeseen production problems. There can be no assurance that the autoline will be fully operational within fiscal 1998, the capacity will be doubled, quality and yield will improve or that the Company will not experience significant time requirements and additional cost with the qualification of the autoline.

Reagent Beads

The reagent discs contain diluent and all the dry reagent chemistry beads necessary to perform blood analyses. Abaxis purchases chemicals from third party suppliers and formulates the raw materials, using proprietary processes, into beads at the proper concentration and consistency to facilitate placement in the reagent disc and provide homogeneous dissolution and mixing when contacted by the diluted plasma. The Company is dependent on single source vendors for some of the chemicals and the loss of any one supplier of chemicals would materially adversely affect the results of operations. The Company is currently evaluating additional vendor sources to better protect its lines of supplies in the future. There can be no assurances that the Company can qualify additional vendor sources.

Piccolo System

Abaxis' Piccolo products are regulated under the 1976 Medical Device Amendments to the Food, Drug and Cosmetic Act (the "Amendment"). The Company's current products are Class II devices requiring the submission of a 510(k) FDA pre-market notification to substantiate label claims prior to marketing. In its submission, the Company must, among other things, establish that the product to be marketed is "substantially equivalent" to a product that was on the market prior to the Amendment or to a product that has previously been cleared under the 510(k) process. The typical process for clearance of 510(k)'s can be three months to over a year and the FDA must issue a written order finding substantial equivalence.

To date, Abaxis has received market clearance for its portable blood analyzer and 16 test methods from the FDA. Abaxis is currently and plans to continue developing additional tests that will be required to be cleared through the FDA. There can be no assurance that Abaxis will receive marketing clearance for any of its future products.

The Amendment also requires the Company to manufacture its products in accordance with the GMP regulations using facilities registered to manufacture the Company's products. The Company's facility is subject to periodic inspections by the FDA. In addition, the use of the Company's facilities may be regulated by various state agencies. There can be no assurance that the Company will be able to maintain facility compliance with requirements or regulations.

The Piccolo system is also affected by the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"), which is intended to ensure the quality and reliability of all medical testing in the United States regardless of where tests are performed. Under CLIA regulations, laboratory tests are divided into three categories: "waived or simple", "moderately complex" and "highly complex." The Company's current products, under these regulations, are classified in the "moderately complex" category, which would require that any location using these products be certified as a laboratory. Initial certification would require the laboratory to obtain a registration certificate from HCFA, which certificate would be issued if the laboratory (1) agrees to notify HCFA within 30 days of any change in its ownership, name or location, (2) agrees to treat proficiency testing samples in the same manner as patient specimens and (3) remits the registration fee. Within two years of registration certificate issuance, laboratories would be inspected to determine compliance with the CLIA requirements. The CLIA regulations require laboratories to meet specified standards in the areas of personnel qualification, administration, participation in proficiency testing, patient test management, quality control/assurance, laboratory information systems and inspections. There can be no assurance that CLIA regulations will not have a materially adverse impact on the Company and its ability to market and sell its products.

In July 1996, the Company filed an application to the Center for Disease Control ("CDC") for its Piccolo systems to be waived from the CLIA regulations. If granted, users of the product can then avoid many of the burdens imposed on users of moderately complex tests. To have the Piccolo placed in the waived category, the Company must conduct field studies at three non-laboratory sites using at least 20 operators each who have no medical laboratory training and can operate the Piccolo system with directions that require no more than seventh grade reading skills. The Company met with the CDC in February 1997 to review its application. CDC has requested more detailed performance data, which the Company is in the process of collecting. To date, only a few companies have received waived category status for their tests and approval time from CDC appears to be over a year or two. Although the review process for a CLIA license application could potentially be very lengthy and costly, the Company believes that its Piccolo products fulfill all requirements for obtaining a waived status. There can be no assurance that the Company will be able to obtain a waived status for its Piccolo systems, or that if such waived status was granted, it will enhance the Company's ability to place Piccolo systems.

Federal and state regulations regarding the manufacture and sale of health care products and diagnostic devices are subject to future change. The Company cannot predict what material impact, if any, such changes might have on its business. In addition, some foreign markets require obtaining foreign regulatory clearances of the Company's products before they can be distributed in those countries. There can be no assurance that the Company will be able to obtain regulatory clearances for its products in the US or in foreign markets.

Although Abaxis believes that it will be able to comply with all applicable regulations of the FDA and of the State of California, current regulations depend heavily on administrative interpretations, and there can be no assurance that future interpretations made by the FDA, HCFA, CDC or other regulatory bodies, with possible retroactive effect, will not adversely affect the Company.

Third party payers can indirectly affect the pricing or the relative attractiveness of the Company's products by regulating the maximum amount of reimbursement they will provide for blood testing services. For example, the reimbursement of fees for blood testing services for Medicare beneficiaries is set by the HCFA. If the reimbursement amounts for blood testing services are decreased in the future, it may decrease the amount which physicians and hospitals are able to recover for such services and consequently the price the Company can charge for its products. If adequate coverage and reimbursement levels are not provided by government and third-party payers for use of the Company's products, the market acceptance of those products would be adversely affected.

VetScan System

The government regulations discussed above generally do not apply to the Company's VetScan products in the US. Internationally, among the countries where the Company currently has established distribution arrangements, to the Company's knowledge, Japan is the only market where VetScan products are subject to government approvals. In Japan, veterinary diagnostic devices are regulated by the Ministry of Agriculture, Forestry and Fishery, and thus the VetScan system must be approved by such Ministry prior to being marketed in Japan. Teramecs, the Company's Japanese distributor, has submitted its application for distribution of the VetScan system in Japan. The Company expects to receive approval by the end of summer 1997, however there can be no assurance that the Ministry of Agriculture, Forestry and Fishery will approve distribution of the VetScan system in Japan.

In order to maintain high quality standards for all its products, the Company is using the same manufacturing facilities to manufacture all Point-of-Care Blood Analyzers whether they be for the Piccolo or VetScan system products and therefore is following the same manufacturing processes and procedures where practical. The Company intends to comply with prudent development and manufacturing practices applicable to the veterinary diagnostic industry.

The Company has pursued the development of a patent portfolio to protect its technology. As of June 16, 1997, the Company has filed 25 United States patent applications. The following 17 patents have been issued:

Patent No. -----	Description -----	Issue Date -----
5,061,381	Apparatus and Method for Separating Cells from Biological Fluids	October 29, 1991
5,122,284	Apparatus and Method for Optically Analyzing Biological Fluids	June 16, 1992
5,173,193	Centrifugal Rotor Having Flow Partition	December 22, 1992
5,242,606	Sample Metering Port for Analytical Rotor Having Overflow Chamber	September 7, 1993
5,275,016	Cryogenic Apparatus	January 4, 1994
5,304,348	Diluent Container for Analytical Rotor	April 19, 1994
5,403,415	Method and Device for Ultrasonic Welding	April 4, 1995
5,409,665	Simultaneous Cuvette Filling with Means to isolate Cuvettes	April 25, 1995
5,413,762	Reagent Testing and Analytical Composition	May 9, 1995
5,457,053	Reagent Container for Analytical Rotor	October 10, 1995
5,472,603	Analytical Rotor with Dye Mixing Chamber	December 5, 1995
5,478,750	Methods for Photometric Analysis	December 26, 1995
5,518,930	Simultaneous Cuvette Filling with means to isolate Cuvettes	May 21, 1996
5,590,052	Error Checking in Blood Analyzer	December 31, 1996
5,591,643	Simplified Inlet Channels	January 7, 1997
5,599,411	Method and Device for Ultrasonic Welding	February 4, 1997
5,624,597	Reagent Compositions for Analytical Testing	April 29, 1997

The Company's policy is to file patent applications to protect technology, inventions and improvements that are important to the development of its business. The Company also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. The Company has filed under the Patent Cooperation Treaty for international patent protection, and is selectively filing patents in countries where the Company expects to market its product.

The patent position of any medical device manufacturer, including Abaxis, is uncertain and may involve complex legal and factual issues. Consequently, even though Abaxis is currently prosecuting its patent applications in the US and has filed an international application under the Patent Cooperation Treaty, in addition to actual foreign patents, the Company does not know whether any of its applications will result in the

issuance of any further patents, or, for any patents issued, whether they will provide significant proprietary protection or will be circumvented or invalidated. Since patent applications are maintained in the US in secrecy until patents issue, and since publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months, Abaxis cannot be certain that it was the first creator of inventions covered by its issued patent or pending patent applications or that it was the first to file patent applications for such inventions. There can be no assurance that the Company's patent applications will result in further patents being issued or that if issued the patents will offer protection against competitors with similar technology; nor can there be any assurance that others will not gain patents that the Company would need to license or circumvent. Moreover, the Company may have to participate in interference proceedings declared by the US Patent and Trademark Office to determine the priority of inventions, which could result in substantial cost to the Company.

The Company also relies upon copyright, trademarks and unpatented trade secrets, and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's trade secrets or disclose such technology.

Abaxis requires its employees, consultants and advisors to execute confidentiality agreements upon the commencement of an employment or consulting relationship with the Company. Each agreement provides that all confidential information developed or made known to the individual during the course of the relationship will be kept confidential and not disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions conceived by an individual shall be the exclusive property of the Company, other than inventions unrelated to the Company's business and developed entirely on the employee's own time. There can be no assurance, however, that these agreements will provide meaningful protection or adequate remedies for the Company's trade secrets in the event of unauthorized use or disclosure of such information.

EMPLOYEES

The Company's success depends upon the continued contribution of its officers and key personnel, many of whom would be difficult to replace. If certain of these people were to leave the Company, the Company's ability to achieve its business objective might be impeded.

As of March 31, 1997, the Company had a total of 59 full-time employees. Fifteen employees, including three Ph.D's, continued to further the Company's research and development activities while also driving the manufacturing process development. Twenty-five employees worked in manufacturing operations devoting their time to manufacturing the VetScan and Piccolo products as well as supporting development activities as necessary. Twelve employees including one Ph.D, were selling and marketing the VetScan and Piccolo products. The remaining seven employees worked in general administration to support the Company's administrative requirements. The Company also uses temporary help to assist in carrying out certain operational duties. As of March 31, 1997, the Company had 18 temporary employees and most of them were assisting in manufacturing operations.

None of the employees are covered by collective bargaining agreements and management considers its relations with employees to be good.

ITEM 2. PROPERTIES

The Company occupies approximately 38,300 square feet of office, research and development and manufacturing space in a building in Sunnyvale, California. The Company's lease will expire in July 2000. During fiscal 1997 the Company had adequate space to satisfy all its needs. The Company believes that it may

need additional space during fiscal year 1998 for warehousing purposes. Should the need for additional space arise, the Company believes that suitable additional space will be available on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in litigation in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's initial public offering was completed in January 1992. From that date, the Company's common stock has been traded in on the Nasdaq National Market under the symbol ABAX.

The high and low prices for the Company's common stock during each quarter since April 1, 1995 are exhibited in the table below, as represented by the high and low daily trade closing sales prices.

Fiscal 1996 -----	High ----	Low ---
First Quarter	\$7.125	\$4.625
Second Quarter	\$9.125	\$6.750
Third Quarter	\$8.625	\$5.000
Fourth Quarter	\$6.875	\$5.625
Fiscal 1997 -----		
First Quarter	\$7.125	\$4.125
Second Quarter	\$6.000	\$3.375
Third Quarter	\$5.750	\$2.625
Fourth Quarter	\$4.250	\$2.500
Fiscal 1998 -----		
First Quarter (through June 16, 1997)	\$3.375	\$2.750

As of June 16, 1997, there were 267 shareholders of record and approximately 4,700 beneficial shareholders. Abaxis has never paid dividends on its common stock and does not anticipate paying cash dividends in the foreseeable future.

On January 31, 1997, the Company issued 32,000 shares of Common Stock to a consultant in payment for investor relations consulting services provided to the Company during 1996. These shares were valued at \$3.875 per share, the closing market price for the Company's Common Stock as reported by Nasdaq on January 10, 1997. This issuance was made pursuant to Section 4(2) under the Securities Act of 1933.

On April 30, 1997, the Company issued warrants to Transamerica Business Credit Corporation ("Transamerica") for the purchase of 106,667 shares of common stock at an initial exercise price of \$3.00 per share. The warrants will expire April 30, 2004. The warrants were issued as part of a \$2,000,000 equipment line of credit agreement with Transamerica. The warrants and shares issuable have not been registered under the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company are qualified by reference to and shall be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and with the consolidated financial statements, related notes and other financial information included elsewhere in this report.

	Years Ended March 31,				
	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----
STATEMENT OF OPERATIONS DATA:					
Total revenues	\$ 7,294,000	\$ 2,948,000	\$ 1,044,000	\$ 1,163,000	\$ --
Operating expenses:					
Cost of product sales	7,661,000	4,883,000	2,587,000	--	--
Research and development	1,315,000	1,326,000	4,166,000	8,540,000	7,529,000
Selling, general and administrative	4,867,000	3,482,000	3,504,000	2,175,000	1,577,000
Total costs and operating expenses	13,843,000	9,691,000	10,257,000	10,715,000	9,106,000
Loss from operations	(6,549,000)	(6,743,000)	(9,213,000)	(9,552,000)	(9,106,000)
Interest income and other	360,000	547,000	376,000	874,000	1,197,000
Interest expense	--	--	(149,000)	(240,000)	(131,000)
Net loss	\$ (6,189,000)	\$ (6,196,000)	\$ (8,986,000)	\$ (8,918,000)	\$ (8,040,000)
Net loss per share	\$ (0.59)	\$ (0.65)	\$ (1.24)	\$ (1.43)	\$ (1.30)
Shares used in calculating net loss per share	10,502,646	9,466,084	7,268,315	6,226,087	6,176,142
	-----	-----	-----	-----	-----
	1997	1996	1995	1994	1993
	-----	-----	-----	-----	-----

BALANCE SHEET DATA:

Cash, cash equivalents, and short-term investments	\$ 5,321,000	\$ 7,778,000	\$ 7,195,000	\$ 5,573,000	\$ 9,801,000
Working capital	6,825,000	7,912,000	7,109,000	3,971,000	6,887,000
Long-term investments	--	500,000	700,000	4,500,000	10,943,000
Total assets	11,977,000	13,046,000	12,147,000	13,569,000	23,370,000
Long-term portion of notes payable and capital lease obligation	--	--	--	1,089,000	1,489,000
Total shareholders' equity	9,358,000	10,726,000	10,436,000	10,003,000	18,752,000

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Abaxis, Inc. (the "Company") develops, manufactures and markets portable blood analysis systems for use in any patient-care setting to provide clinicians with rapid blood constituent measurements. The Company's products consist of a compact 6.9 kilogram analyzer and a series of single-use plastic disks called reagent discs that contain 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. The Company currently markets this system for veterinary use under the name VetScan and in the human medical market under the name Piccolo.

During fiscal 1997, the Company continued to increase its customer base. The Company shipped a record number of its Point-of-Care Blood Analyzers during the year: 703 analyzers (up 142% or 413 units from last fiscal year), with 407 analyzers placed domestically and 296 analyzers placed internationally. In the US, the Company placed 362 VetScan systems and 45 Piccolo systems. Internationally, the Company shipped 169 Piccolo systems and 127 VetScan systems. Two hundred systems were shipped to Japan, 90 systems to Europe and the balance to other various countries. In addition to the analyzer placement, the Company shipped a total of 225,250 reagent discs, and approximately 78% of these reagent discs (up 177% or 144,000 units from last year) were consumed by the US veterinary market where the Company has shipped more than 700 VetScan systems.

On June 20, 1996, the Board of Directors of Abaxis announced the appointment of Clinton H. Severson as President and Chief Executive Officer, succeeding Gary H. Stroy. Mr. Stroy remains as Chairman of the Board. As Chairman of the Board, Mr. Stroy's focus is on business development and strategic corporate alliances for the Company. Mr. Severson brings to the Company an extensive background in the medical diagnostic arena and expertise in international distribution and product development.

During fiscal 1997, the Company continued to be successful in the US veterinary market. By the end of the fiscal year, the Company had installed a total of 767 VetScan systems in the US, an 83% increase from its customer base of 409 VetScan systems a year earlier. The addition of two national institutional customers, Veterinary Centers of America ("VCA") and VetSmart, contributed significantly to the Company's new system placements. Both customers purchased the Company's VetScan systems to replace systems from the Company's competitors. The Company began selling its VetScan systems to VCA hospitals in September 1996 and through May 1997, a total of 88 systems were installed in a number of VCA's 155 free-standing animal hospitals. In March 1997, the Company signed an agreement with VetSmart to provide during the next twelve months, 105 VetScan systems and 80,000 reagent discs for use in VetSmart pet hospitals. Through May 1997, the Company has installed 91 VetScan systems in VetSmart pet hospitals located in PetSmart stores nationwide. There can be no assurance that VCA or VetSmart will place additional orders for VetScan systems or reagent discs beyond the terms of current agreements or purchase orders.

The Company has targeted branches of the US military as potential customers for the Company's Piccolo Point-of-Care Blood Analyzer based on the features of the Piccolo systems and the special requirements of the military environment. The Company has been involved in rigorous studies with the US Navy since 1995, evaluating the feasibility and clinical utility of the Piccolo systems in the often rugged environment encountered by the Navy. In March 1997, the Company announced that it had been awarded a contract with a potential contract value of up to \$7.5 million to provide the US Navy and the Marine Corps its Piccolo Point-of-Care Blood Analyzer and reagent disc products. The contract calls for a maximum order of approximately 345 Piccolo systems and 250,000 reagent discs. Through May 1997, the Company has shipped 72 Piccolo systems under this contract and another 43 systems have been ordered but not yet shipped. There can be no assurance that the Company will receive orders for the maximum order quantity under the conditions of the contract.

The Company believes that its current menu of 15 reagent test methods for its Piccolo systems are suitable for certain niche human market segments, such as the military, but not broad enough to fulfill the diagnostic needs of physician's office practices. One of the key factors to the Company's future success depends on the Company's ability to identify and develop new test methods that will allow the Company to penetrate the human diagnostic market. During fiscal 1997, the Company received 510(k) clearance from the Food and Drug Administration ("FDA") for its GGT test. Completion of GGT allowed the Company to release the Liver Panel Plus reagent disc product in October 1996, which is currently being sold to the US Navy. The Company also completed development of CK during fiscal 1997 which allowed the Company to release a new Equine Profile

reagent disc product into the veterinary market in June 1997. This method will be entered into clinical trials during fiscal 1998 for inclusion in new reagent disc products for the human medical market. The Company has identified ten additional test methods that are likely candidates to enhance its ability to penetrate the human medical market, as well as broadening its market coverage in the veterinary market. In January 1997, the Company allocated resources to begin the feasibility phase to develop four electrolyte test methods: bicarbonate, chloride, potassium, and sodium. The Company expects to conclude the feasibility phase of these four tests by the end of summer 1997 and if the results are favorable, proceed with developing these tests into marketable products for both the human and the veterinary markets. The Company estimates that development of these four test methods as a group will take approximately 18 months to complete and should be available during 1998. There can be no assurance that the Company will be successful in the development of the test methods or that the methods will be developed within the anticipated time frame.

For the human market, the Company plans on incorporating these tests into new panels consistent with the codes in the 1998 version of the new Current Procedures Terminology ("CPT") manual published by the American Medical Association ("AMA"). These new CPT codes represent a set of tests performed in standardized panels released in late March, 1997 by the Health Care Financing Administration ("HCFA"), the federal agency that administers the Medicare and Medicaid programs. The American Medical Association originally proposed eight standardized panels and the HCFA adopted four of these panels, with some modifications, effective July 1, 1997. The four fixed-test panels are: electrolytes, comprehensive metabolic, hepatic function, and basic metabolic. Abaxis currently has all the tests for the hepatic function panel, and will have all required tests for the additional three panels with the development of the four electrolyte tests.

In addition to investing its own resources in expanding the test menu, the Company signed a nonbinding letter of intent with Teramecs Co., Ltd. and Daiichi Pure Chemicals Co., Ltd. in April 1997 to jointly develop additional test methods for use on the Piccolo analyzer. The product development collaboration will focus on commercializing targeted methods for lipids, proteins, and enzymes. The Company expects to sign a definitive agreement in 1997. There can be no assurance that the Company will be able to develop these new test methods, conclude a definitive agreement with Teramecs and Daiichi Pure Chemicals, or if the test methods were developed, be able to successfully market these methods.

Market acceptance of the Company's Piccolo products in the US will depend in part on all current and future regulations affecting the conditions under which a health care practitioner may conduct medical tests using the Company's products. One of the regulations that affects the Piccolo Systems is the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"). Under the CLIA regulations, the Company's Piccolo systems are currently classified as "moderately complex", which requires that any location using the Piccolo products be certified as a laboratory. Even though the Company believes that obtaining a CLIA license does not require significant resources for clinicians, it can be a barrier to the Company's ability to place Piccolo systems. In July 1996, the Company filed an application to the Center for Disease Control ("CDC") for its Piccolo systems to be waived from the CLIA regulations. The Company met with the CDC in February 1997 to review its application. Although the review process for a CLIA license application could potentially be very lengthy and costly, the Company believes that its Piccolo products fulfill all requirements for obtaining a waived status. There can be no assurance that the Company will be able to obtain a waived status for its Piccolo systems, or that if such waived status was granted, it will enhance the Company's ability to place Piccolo systems. (See "Business-Government Regulation.")

Finally, the Company's success will depend on its ability to introduce point-of-care systems and compete with laboratories removed from the patient-care setting and with other companies that offer near-patient testing for the alternate-site market. The imposition of more stringent government regulations or failure to achieve success in these areas could have a materially adverse effect on the results of operations and financial condition of the Company. (See "Business-Competition.")

Sales for any future periods are not predictable with a significant degree of certainty. The Company generally operates with limited order backlog because its 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. The Company's expense levels, which are to a large extent fixed, are based in part on its expectations as to future revenues. Accordingly the Company may be unable to adjust spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any such shortfall would have an immediate materially adverse impact on operating results and financial conditions. Until sales volume of the Company's products, particularly its reagent discs, increase significantly so as to offset associated fixed costs and to realize certain manufacturing economies of scale, sales of the Company's products will result in further losses and adversely affect the Company's results of operations and financial condition. The Company believes that period to period comparisons of its results of operations are not necessarily meaningful.

The Company's periodic operating results have in the past varied and in the future may vary significantly depending on, but not limited to, a number of factors, including the level of competition; the size and timing of sales orders; market acceptance of the current and new products; new product announcements by the Company or its competitors; changes in pricing by the Company or its competitors; the ability of the Company to develop, introduce and market new products on a timely basis; component costs and supply constraints; manufacturing capacities and ability to scale up production; the mix of product sales between the analyzers and the reagent discs; mix in sales channels; levels of expenditure on research and development; changes in Company strategy; personnel changes; regulatory changes; and general economic trends.

The Company continues to explore the application of its proprietary technology used to produce the dry reagents used in the reagent discs, called the Orbos(R) Discrete Lypholization 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. The Company believes that the Orbos process has broad applications in products where delivery of active ingredients in a stable, pre-metered format is desired. The Company has a supply agreement with Becton Dickinson Immunocytometry Systems to provide products for flow and image cytometry using the Company's Orbos technology. The Company also has a licensing agreement with Pharmacia Biotech, Inc., granting Pharmacia exclusive use of the Company's Orbos technology in the manufacture and sale of reagents for molecular biology research. Revenues from these contracts are primarily dependent upon sales of products using the Orbos technology by these other parties, which is out of the control of the Company and therefore, may vary significantly from quarter to quarter. The Company is currently working with another company to determine potential suitability of the Orbos technology to this company's product. As resources permit, the Company will pursue other development, licensing or manufacturing agreement opportunities for its Orbos technology with other companies. There can be no assurances, however, that other applications will be identified or that additional agreements with the Company will result.

RESULTS OF OPERATIONS

Revenue

During fiscal 1997, the Company reported revenues of \$7,294,000, of which \$4,699,000 were from sales of Point-of-Care Blood Analyzers, \$2,099,000 from sales of reagent disc products, \$407,000 from Orbos contracts and \$89,000 from other revenue. During fiscal 1996, the Company reported revenues of \$2,948,000, of which \$1,807,000 were from sales of Point-of-Care Blood Analyzers, \$789,000 from sales of reagent disc products, and \$352,000 from Orbos contracts. During fiscal 1995, the Company reported revenues of \$1,044,000, \$845,000 from the sale of VetScan Analyzers and reagent discs and \$199,000 from Orbos development agreements. The \$4,346,000 or 147% increase in revenues in fiscal 1997 compared to fiscal 1996 was due to increased unit sales of Point-of-Care Blood Analyzers, direct sales during the fourth quarter of fiscal 1997 of Piccolo systems to the US military which yields higher revenue compared to distributor sales of VetScan systems, and increased repeat reagent disc sales in both the US and international markets. The \$1,904,000 or 182% increase in revenues in fiscal 1996 compared to fiscal 1995 was primarily due to increased unit sales of

VetScan Analyzers, increased repeat reagent disc sales from its existing VetScan customers, shipments of its Piccolo systems and reagent discs which began in November 1995, and an increase in revenues from its Orbos contracts.

Cost of Product Sales

Since the Company began recognizing revenue from the sale of its VetScan products in the second quarter of fiscal 1995, all costs associated with manufacturing and production have been included in cost of product sales. Cost of product sales includes the cost of all manufacturing activities for the Company's products, as well as the costs associated with the Company's manufacturing capacity. Cost of product sales during fiscal 1997, 1996 and 1995 was \$7,661,000, \$4,883,000 and \$2,587,000, respectively. The increase in cost of product sales when comparing fiscal 1997 to fiscal 1996 of \$2,778,000 or 57% was primarily a function of the increase in sales volume, partially offset by efficiencies resulting from standardized manufacturing processes. The increase in cost of product sales in fiscal 1996 compared to fiscal 1995 of \$2,296,000 or 89% was primarily due to the fact that the Company began commercial shipment in July 1994 and hence only three quarters of a year of manufacturing and production expenses were included in cost of sales during fiscal 1995.

Research and Development Expense

The Company incurred research and development expenses of \$1,315,000 in fiscal 1997, compared with \$1,326,000 in fiscal 1996 and \$4,166,000 in fiscal 1995. The \$11,000 or less than 1% decrease in research and development expenses in fiscal 1997 compared to fiscal 1996 is mainly the result of allocation of some of the development resources to support product manufacturing activities. The decrease in research and development expenses in fiscal 1996 compared to fiscal 1995 was primarily due to the classification of the manufacturing operating expenses to cost of sales beginning July 1994, lower materials consumption for the development of chemistry methods, and overall reduced spending as the Company transitioned its primary focus from research and development to commercialization. Research and development activities accounted for approximately 9% of total operating expenses during fiscal 1997 as compared to 14% during fiscal 1996 and 41% during fiscal 1995. The Company expects the dollar amount of research and development expenses to increase in fiscal 1998 from fiscal 1997, as the Company undertakes development of new test methods to expand its test menus as well as other development projects. There can be no assurance, however, that the Company will undertake such research and development activities in future periods or, if it does, that such activities will be successful.

Selling, General and Administrative Expense

Selling, general and administrative expenses were \$4,867,000 in fiscal 1997, compared to \$3,482,000 in fiscal 1996 and \$3,504,000 in fiscal 1995. The increase of expense in fiscal 1997 compared to fiscal 1996 of \$1,363,000 or 39% is related primarily to launching the Piccolo products worldwide and increases in administrative, sales and marketing staffing. The decrease in selling, general and administrative costs for fiscal 1996 compared to fiscal 1995 was primarily due to costs associated with launching the VetScan products in fiscal 1995 partially offset by increased marketing and sales activities in fiscal 1996 related to the preparation of launching the Piccolo products worldwide, including signing and training international distributors.

Interest Income

Interest income totaled \$332,000 for fiscal 1997, compared with \$547,000 in fiscal 1996 and \$376,000 for fiscal 1995. Interest income decreased \$215,000 or 39% in fiscal 1997 compared to fiscal 1996. The decrease was primarily the result of decreased investment levels and a lower rate of return on investments due to shorter terms of the investments. Interest income increased \$171,000 or 45% from fiscal 1995 to 1996 primarily due to increased cash investment levels in fiscal 1996. The Company incurred no interest expense during fiscal 1997 and 1996. During fiscal 1995 interest expense was \$149,000, mainly for payment of the Company's equipment loan.

Net cash used in operating activities during fiscal 1997, was \$6,818,000, compared to \$5,744,000 and \$8,329,000 for fiscal 1996 and 1995, respectively. The increase in net cash used in operating activities in fiscal 1997 compared to fiscal 1996 was the result of increases in trade and other receivables due to increased revenue in primarily the fourth quarter of fiscal 1997 from the same period in fiscal 1996, increases in inventory necessary to meet production demands for increased shipments and a decrease in trade accounts payable. The increases in net cash used in operating activities in fiscal 1997 were partially offset by increases in liabilities such as accrued payroll, other accrued liabilities, warranty reserve and deferred revenue. The decrease in the net cash used in operating activities in fiscal 1996 as compared to fiscal 1995 was primarily attributable to the lower net loss in fiscal 1996, partially offset by the increase in trade receivables as the Company's revenues increased in the fourth quarter of fiscal 1996 from the same period of fiscal 1995.

Net cash provided by investing activities for fiscal 1997 was \$1,842,000 as compared to \$2,564,000 of net cash used in fiscal 1996 and \$4,454,000 of net cash provided in fiscal 1995. The change from net cash used in fiscal 1996 to net cash provided by investing activities for fiscal 1997 was primarily due to total maturities of available-for-sale securities exceeding purchases of available-for sale securities in fiscal 1997 resulting in a decrease of total short-term investments. Cash provided by maturities and sales of available-for-sale securities was partially offset by increased purchases of property and equipment over fiscal 1996 levels. The change from net cash used in fiscal 1996 as compared to the net cash provided in fiscal 1995 was primarily due to net results of purchases of available-for-sale investments over maturities and sales of available-for-sale investments, partially offset by lower purchases of property and equipment during fiscal 1996 as compared to fiscal 1995 when the Company set up its initial commercial manufacturing capabilities.

Net cash provided by financing activities for fiscal 1997 was \$4,821,000 as compared to \$6,439,000 of net cash provided in fiscal 1996 and \$7,331,000 of net cash provided in fiscal 1995. Net cash provided by financing activities in fiscal 1997 and 1996 was primarily the result of offshore private placements of preferred stock and issuance of common stock. Net cash provided by financing activities for fiscal 1995 consisted primarily of a registered direct placement of common stock, partially offset by principal payments made under capital lease obligations.

As of March 31, 1997, the Company had approximately \$1,436,000 in cash and cash equivalents and \$3,885,000 in short-term investments, for total cash resources of \$5,321,000. As of March 31, 1997, the Company had no credit facilities. The Company expects to incur substantial additional costs to support its future operations, including commercialization of its Piccolo products; development of a sales and marketing organization to support sales and marketing activities for the Piccolo and VetScan products; acquisition of capital equipment for the Company's manufacturing facilities, which includes the ongoing development and implementation of an automated manufacturing line to provide capacity for commercial volumes; costs related to continuing development of its current and future products; additional pre-clinical testing and clinical trials for its current and future products; and expansion of administrative support activities. The Company is currently contracting with a vendor to build an automated disc assembly line to provide anticipated capacity for future demand and to improve production efficiency. The Company currently estimates the cost of this new production line will be approximately \$1,500,000 of which approximately \$945,000 was paid through March 31, 1997. The Company expects to pay the balance upon acceptance of the equipment. In April 1997, in anticipation of taking delivery of the automated assembly line, the Company arranged for a equipment financing loan of up to \$2,000,000, with 36 monthly payments, and a final balloon payment equal to 10% of the original principal amount. The equipment financing loan is collateralized by the Company's equipment and bear interest at approximately 16%. As of May 31, 1997, the Company has drawn \$600,000 against this

equipment financing loan. Additional manufacturing equipment will also need to be added during fiscal 1998 to provide sufficient production capabilities. Additionally, inventories and receivables related to the commercialization of the VetScan and Piccolo systems could increase significantly in future periods, which would require significant capital resources.

The Company anticipates that its existing capital resources and anticipated revenue from the sales of its products will not be adequate to satisfy its currently planned operating and financial requirements through fiscal 1998. Accordingly, the Company will need to raise additional funds from public or private financing if it is to sustain its currently planned level of operating expenses during fiscal 1998, or in the event that the Company is unsuccessful in raising sufficient funding, the Company will have to significantly reduce its operating expenses, which could have a material adverse impact on the Company's ability to develop, manufacture and market products, and hence the Company's results of operations. There can be no assurance that any financing will be available, or if available, be available at terms acceptable to the Company. Furthermore, any additional equity financing may be dilutive to shareholders and debt financing may involve restrictive covenants.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Report of Deloitte & Touche LLP, Independent Auditors

Report of Ernst & Young LLP, Independent Auditors

Balance Sheets at March 31, 1997 and 1996

Statements of operations for each of the three years in the period ended March 31, 1997

Statement of Shareholders' Equity for each of the three years in the period ended March 31, 1997

Statements of Cash Flows for each of the three years in the period ended March 31, 1997

Notes to Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of
Abaxis, Inc.:

We have audited the accompanying balance sheets of Abaxis, Inc. as of March 31, 1997 and 1996, and the related statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Company for the year ended March 31, 1995 were audited by other auditors whose report, dated April 21, 1995, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

San Jose, California
April 22, 1997 (April 30, 1997 as to Note 10)

The Board of Directors and Shareholders
Abaxis, Inc.

We have audited the accompanying statements of operations, shareholders' equity, and cash flows of Abaxis, Inc. for the year ended March 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Abaxis, Inc. for the year ended March 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP
San Jose, California
April 21, 1995

ABAXIS, INC.
BALANCE SHEETS

	March 31,	
ASSETS	1997	1996
Current assets:		
Cash and cash equivalents	\$ 1,436,000	\$ 1,591,000
Short-term investments	3,885,000	6,187,000
Trade and other receivables	1,690,000	690,000
Interest receivable	80,000	41,000
Inventories	2,218,000	1,456,000
Prepaid expenses	135,000	92,000
	9,444,000	10,057,000
Property and equipment - net	2,453,000	2,427,000
Long-term investments	0	500,000
Deposits and other assets	80,000	62,000
Total assets	\$11,977,000	\$13,046,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 695,000	\$ 1,017,000
Accrued payroll and related expenses	604,000	417,000
Other accrued liabilities	554,000	225,000
Warranty reserve	495,000	249,000
Deferred rent	24,000	94,000
Deferred revenue	247,000	143,000
	2,619,000	2,145,000
Customer deposits	-	175,000
Commitments and contingencies (Note 5)		
Shareholders' equity:		
Convertible preferred stock, no par value: authorized shares - 5,000,000; none issued.....	-	-
Common stock, no par value: authorized shares - 35,000,000; issued and outstanding shares - 11,886,153 in 1997 and 9,857,628 in 1996	58,403,000	53,556,000
Accumulated deficit	(49,045,000)	(42,830,000)
	9,358,000	10,726,000
Total liabilities and shareholders' equity	\$11,977,000	\$13,046,000

See notes to financial statements.

ABAXIS, INC.
STATEMENTS OF OPERATIONS

	Year Ended March 31,		
	1997	1996	1995
Revenues:			
Product sales, net	\$ 7,294,000	\$ 2,948,000	\$ 845,000
Other development revenue	-	-	199,000
	-----	-----	-----
Total revenues	7,294,000	2,948,000	1,044,000
	-----	-----	-----
Costs and operating expenses:			
Cost of product sales	7,661,000	4,883,000	2,587,000
Research and development	1,315,000	1,326,000	4,166,000
Selling, general and administrative	4,867,000	3,482,000	3,504,000
	-----	-----	-----
Total costs and operating expenses ..	13,843,000	9,691,000	10,257,000
	-----	-----	-----
Loss from operations	(6,549,000)	(6,743,000)	(9,213,000)
Interest and other income	360,000	547,000	376,000
Interest expense	-	-	(149,000)
	-----	-----	-----
Net loss	\$ (6,189,000)	\$ (6,196,000)	\$ (8,986,000)
	=====	=====	=====
Net loss per share	\$ (0.59)	\$ (0.65)	\$ (1.24)
	=====	=====	=====
Weighted average shares outstanding .	10,502,646	9,466,084	7,268,315
	=====	=====	=====

See notes to financial statements.

ABAXIS, INC.

STATEMENTS OF SHAREHOLDERS' EQUITY

	Convertible Preferred Stock		Common Stock		Accumulated Deficit	Deferred Compen- sation	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
Balances at April 1, 1994	-	\$ -	6,260,922	\$37,782,000	(\$27,648,000)	(\$131,000)	\$ 10,003,000
Stock option exercises	-	-	111,752	115,000	-	-	115,000
Issuance of common stock in a public offering, net of issuance costs of \$167,000	-	-	2,347,250	9,222,000	-	-	9,222,000
Amortization of deferred compensation and cancellation of stock options	-	-	-	(2,000)	-	84,000	82,000
Net loss	-	-	-	-	(8,986,000)	-	(8,986,000)
Balances at March 31, 1995	-	-	8,719,924	47,117,000	(36,634,000)	(47,000)	10,436,000
Stock option exercises	-	-	157,704	389,000	-	-	389,000
Issuance of common stock in a private placement, net of issuance costs of \$23,000	-	-	980,000	6,050,000	-	-	6,050,000
Amortization of deferred compensation	-	-	-	-	-	47,000	47,000
Net loss	-	-	-	-	(6,196,000)	-	(6,196,000)
Balances at March 31, 1996	-	-	9,857,628	53,556,000	(42,830,000)	-	10,726,000
Stock option exercises	-	-	20,925	67,000	-	-	67,000
Issuance of Series A preferred stock in a private placement, net of issuance costs of \$220,000	500,000	4,780,000	-	-	-	-	4,780,000
Preferred dividends paid	-	-	-	-	(26,000)	-	(26,000)
Conversion of preferred stock into common stock	(500,000)	(4,780,000)	2,007,600	4,780,000	-	-	-
Net loss	-	-	-	-	(6,189,000)	-	(6,189,000)
Balances at March 31, 1997	-	\$ -	11,886,153	\$58,403,000	(\$49,045,000)	\$ -	\$ 9,358,000

See notes to financial statements

ABAXIS, INC.
STATEMENTS OF CASH FLOWS

	Year Ended March 31,		
	1997	1996	1995
Operating activities:			
Net loss	\$(6,189,000)	\$(6,196,000)	\$(8,986,000)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	934,000	657,000	978,000
Amortization of deferred compensation	-	47,000	82,000
Changes in assets and liabilities:			
Trade and other receivables	(1,000,000)	(405,000)	(183,000)
Interest receivable	(39,000)	(6,000)	198,000
Inventories	(762,000)	(414,000)	(783,000)
Prepaid expenses	(43,000)	(19,000)	208,000
Deposits and other assets	(18,000)	(17,000)	6,000
Accounts payable	(322,000)	519,000	(248,000)
Accrued payroll and related expenses	187,000	99,000	(164,000)
Other accrued liabilities	505,000	(28,000)	264,000
Deferred revenue	104,000	34,000	109,000
Customer deposits	(175,000)	(15,000)	190,000
Net cash used in operating activities	(6,818,000)	(5,744,000)	(8,329,000)
Investing activities:			
Purchase of available-for-sale securities	(27,370,000)	(17,194,000)	(28,026,000)
Maturities of available-for-sale securities	30,172,000	15,250,000	26,337,000
Sales of available-for-sale securities	-	-	7,323,000
Purchase of property and equipment	(960,000)	(620,000)	(1,184,000)
Capital lease deposits	-	-	4,000
Net cash provided by (used in) investing	1,842,000	(2,564,000)	4,454,000
Financing activities:			
Principal payments under notes payable and capital lease obligations	-	-	(2,006,000)
Proceeds from issuance of common and preferred	4,847,000	6,439,000	9,337,000
Preferred dividends paid	(26,000)	-	-
Net cash provided by financing activities	4,821,000	6,439,000	7,331,000
Increase (decrease) in cash and cash equivalents	(155,000)	(1,869,000)	3,456,000
Cash and cash equivalents at beginning of year	1,591,000	3,460,000	4,000
Cash and cash equivalents at end of year	\$ 1,436,000	\$ 1,591,000	\$ 3,460,000
Supplemental disclosures of cash flow information -			
Cash paid for interest	\$ -	\$ -	\$ 149,000
Noncash financing activity -			
Conversion of preferred stock into common stock	\$ 4,780,000	\$ -	\$ -

ABAXIS, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 1997, 1996 AND 1995

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Abaxis, Inc. (the Company) was incorporated in California in 1989 and develops, manufactures and markets portable blood analysis systems. The Company was in the development stage until fiscal 1997.

FUTURE FINANCING - The Company expects to incur substantial costs in fiscal 1998 related to the continued development and marketing of its products. In addition, future capital requirements will include amounts necessary to fund accounts receivable, inventories, and capital equipment acquisitions. The Company does not believe that its existing capital resources and anticipated revenue from VetScan and Piccolo product sales will be adequate to satisfy its currently planned financial requirements through fiscal 1998. Consequently, the Company will need to raise additional funds from private or public financing if it is to sustain its currently planned level of operating expenses during fiscal 1998, or in the event that the Company is unsuccessful in raising sufficient funding, the Company will have to significantly reduce its operating expenses.

CASH EQUIVALENTS AND INVESTMENTS - Cash equivalents consist of short-term financial instruments with original maturities of less than 90 days from the date of acquisition that are readily convertible into cash. Short-term investments have maturities of less than one year from the balance sheet date and long-term investments have maturities greater than one year from the balance sheet date.

Investments consist primarily of marketable debt securities that are classified as "available-for-sale" and are carried at amounts approximating fair value. The fair values for marketable debt securities are based on quoted market prices. Unrealized gains and losses, net of tax, are reportable in shareholders' equity; however, such amounts have not been material and therefore were not recorded. The cost basis of investments is adjusted for the amortization of premiums and the accretion of discounts to maturity, which is included in interest income. Realized gains and losses are also included in interest income. The cost of securities sold is based on the specific identification method.

CONCENTRATION OF CREDIT RISK - Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash, cash equivalents, short- and long-term investments, as well as accounts receivable. The Company has placed the majority of its cash and cash equivalents and short- and long-term investments in high-credit, high-quality corporate notes and commercial paper.

The Company sells its products primarily to organizations in the United States, Japan and Europe. The Company monitors the credit status of its customers on an ongoing basis and generally does not require its customers to provide collateral or other security to support accounts receivable. While the Company maintains allowances for potential bad debt losses, such losses to date have not been material. At March 31, 1997, three customers accounted for 25%, 25% and 15% of accounts receivable, respectively. At March 31, 1996, three customers accounted for 54%, 11% and 10% of accounts receivable, respectively.

PROPERTY AND EQUIPMENT - Property and equipment are stated at cost. Depreciation and amortization are generally provided using the straight-line method over the shorter of the estimated useful lives of the assets (two to five years) or the lease term.

INVENTORIES - Inventories are stated at the lower of cost (first-in, first-out method) or market.

REVENUE RECOGNITION - Under a distribution agreement, a veterinary products distributor has certain rights of return for products unsold by the distributor. The Company defers recognition of such sales and profits until the products are resold by the distributor. For direct sales and for distributors where significant rights of return for products unsold do not exist, revenues are recognized upon shipment. A provision for the estimated future cost of warranty is made at the time revenue is recognized.

INCOME TAXES - The Company accounts for income taxes using an asset and liability approach to recording deferred taxes.

CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES - The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include the allowance for doubtful accounts receivable, the net realizable value of inventory, certain accruals and warranty reserves. Actual results could differ from those estimates.

The Company operates in a dynamic industry, and accordingly, can be affected by a variety of factors. For example, management of the Company believes that changes in any of the following areas could have a negative effect on the Company in terms of its future financial position and results of operations: ability to obtain additional financing; regulatory changes; uncertainty regarding health care reforms; fundamental changes in the technology underlying blood testing; the ability to develop new products that are accepted in the marketplace; competition, including, but not limited to pricing and products or product features and services; litigation or other claims against the Company; the adequate and timely sourcing of inventories; and the hiring, training and retention of key employees.

NET LOSS PER SHARE - Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common equivalent shares from stock options are excluded from the computation as their effect is antidilutive.

STOCK-BASED COMPENSATION - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees."

RECENTLY ISSUED ACCOUNTING STANDARD - In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). The Company is required to adopt SFAS 128 in the third quarter of fiscal 1998.

SFAS 128 replaces current earnings per share (EPS) reporting requirements and requires a dual presentation of basic and diluted EPS. Basic EPS exclude dilution and is computed by dividing net income by the weighted average of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The adoption of SFAS 128 will not have an impact on the Company's historically reported EPS.

2. INVESTMENTS

The amortized cost and the estimated fair value of available-for-sale securities at March 31 are materially the same and are shown below by contractual maturity:

	1997 -----	1996 -----
Due in one year or less:		
Commercial paper and bankers' acceptances	\$ -	\$4,987,000
Corporate debt securities	3,885,000	1,200,000
	-----	-----
	\$3,885,000	\$6,187,000
	=====	=====
Due after one year through two years -		
Corporate debt securities	\$ -	\$ 500,000
	=====	=====

3. INVENTORIES

Inventories at March 31 consist of the following:

	1997 -----	1996 -----
Raw materials	\$1,235,000	\$ 829,000
Work in process	723,000	467,000
Finished goods	260,000	160,000
	-----	-----
	\$2,218,000	\$1,456,000
	=====	=====

4. PROPERTY AND EQUIPMENT

Property and equipment at March 31 consist of the following:

	1997	1996
	-----	-----
Machinery and equipment	\$3,412,000	\$3,325,000
Furniture and fixtures	935,000	635,000
Computers and computer equipment.....	812,000	876,000
Leasehold improvements	230,000	414,000
Construction in progress	1,367,000	679,000
	-----	-----
Accumulated depreciation and amortization	6,756,000	5,929,000
	(4,303,000)	(3,502,000)
	-----	-----
Net property and equipment	\$2,453,000	\$2,427,000
	=====	=====

5. COMMITMENTS AND CONTINGENCIES

LEASES - The Company leases its principal facility under a noncancelable operating lease agreement that expires in July 2000. Monthly rental payments increase based on a predetermined schedule. The Company recognizes rent expense on a straight-line basis over the life of the lease. The future minimum payments under the operating lease at March 31, 1997 are as follows:

Fiscal Year

1998	\$ 598,000
1999	682,000
2000	705,000
2001	237,000
	=====
Total	\$2,222,000
	=====

Rent expense under operating leases was approximately \$390,000, \$391,000 and \$390,000 for the years ended March 31, 1997, 1996 and 1995, respectively.

LITIGATION - The Company is involved in litigation in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Company, the Company's financial position or results of operations.

6. RETIREMENT PLAN

The Company has a tax deferred savings plan for the benefit of qualified employees. The plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to have salary reduction contributions made to the plan on a quarterly basis. The Company may make annual contributions to the plan at the discretion of the Board of Directors. The Company has made no contributions since the inception of the plan.

CONVERTIBLE PREFERRED STOCK - During fiscal year 1997, the Board of Directors authorized and designated 500,000 shares of Series A convertible preferred stock. In September 1996, the Company sold the 500,000 shares of Series A convertible preferred stock in a private placement, resulting in net proceeds of \$4,780,000. Significant terms of the Series A convertible preferred stock included a conversion feature such that each share was convertible into common stock at the option of the shareholder based upon a variable exchange ratio depending upon the timing of conversion. The Series A convertible preferred stock was also subject to automatic conversion into common stock upon the earlier to occur of (1) the time the consent of at least a majority of the outstanding preferred stock to such conversion is obtained or (2) on the second anniversary of the issuance date. The significant terms of the Series A preferred stock also entitled the holders to cumulative dividends of \$0.15 per share of preferred stock at fixed intervals of time subsequent to the issuance date.

In November and December 1996, the 500,000 shares of Series A convertible preferred stock were converted into 2,007,600 shares of common stock in accordance with the specified exchange ratios. In connection with the conversion, a dividend of \$26,000 was paid to the holders of the Series A preferred stock in accordance with the rights of the shareholders.

STOCK OPTION PLANS - Under the Company's 1989 Stock Option Plan (the Option Plan), options to purchase common stock may be granted to employees and consultants of the Company. Options granted under the 1989 Stock Option Plan may be either incentive stock options or nonqualified stock options. Incentive stock options are granted at no less than the fair market value of the common stock on the date of grant, and nonqualified stock options are granted at no less than 85% of the current fair market value of the common stock on the date of grant. The stock options generally expire ten years from the date of grant and normally become exercisable ratably over four years. Under the Company's Outside Directors' Stock Option Plan (the Directors' Plan), options to purchase common stock may be granted only to directors of the Company who are not employees. Options under the Directors' Plan are nonqualified stock options and are granted at the fair market value on the date of grant and expire five years from the date of grant.

In a prior year, the Company's Board of Directors reserved 20,000 shares of common stock of which options to purchase 15,000 shares were granted to a non-employee director at the fair market value of the Company's common stock on the date of grant.

Information with respect to stock option activity is summarized as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at April 1, 1994	763,945	\$ 3.49
Granted	326,750	5.53
Exercised	(111,752)	1.02
Canceled	(174,069)	6.79
Balances at March 31, 1995 (323,778 vested at a weighted average price of \$2.22)	804,874	3.95
Granted (weighted average fair value of \$4.14 per share)	299,000	6.28
Exercised	(157,704)	2.42
Canceled	(147,565)	5.20
Balances at March 31, 1996 (368,143 vested at a weighted average price of \$3.64)	798,605	4.85
Granted (weighted average fair value of \$2.99 per share)	634,350	4.56
Exercised	(20,925)	3.23
Canceled	(234,981)	5.75
Balances at March 31, 1997	1,177,049	\$ 4.54

Additional information regarding options outstanding as of March 31, 1997 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.32 - \$1.32	118,921	3.88	\$0.91	118,921	\$0.91
\$2.50 - \$2.50	149,850	9.94	\$2.50	-	\$ -
\$2.87 - \$4.00	113,000	5.54	\$3.74	73,585	\$3.93
\$4.37 - \$5.00	145,875	7.85	\$4.70	118,448	\$4.66
\$5.12 - \$5.12	255,000	9.23	\$5.12	-	\$ -
\$5.25 - \$5.62	154,000	8.54	\$5.60	39,208	\$5.54
\$5.75 - \$6.25	133,736	7.81	\$6.00	53,120	\$6.13
\$6.37 - \$9.11	106,667	7.02	\$7.31	60,783	\$7.14
\$0.32 - \$9.11	1,177,049	7.80	\$4.54	464,065	\$4.15

At March 31, 1997, 378,512 and 93,750 shares were available for future grants under the Option Plan and the Directors' Plan, respectively.

ADDITIONAL STOCK PLAN INFORMATION - As discussed in Note 1, the Company continues to account for its stock-based awards using the intrinsic value method in accordance with APB No. 25, "Accounting for Stock Issued to Employees," and its related interpretations.

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), requires the disclosure of pro forma net income and earnings per share had the Company adopted the fair value method as of the beginning of fiscal 1996. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations were made using the Black-Scholes option pricing method with the following weighted average assumptions: expected life, 19 months following vesting; volatility, 91% in 1997 and 92% in 1996; risk-free interest rates, 5.8% in 1997 and 4.9% in 1996; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach, and forfeitures are recognized as they occur. If the computed fair values of the 1997 and 1996 awards had been amortized to expense over the vesting period of the awards, pro forma net loss would have been \$7,022,000 (\$0.67 per share) in 1997 and \$6,446,000 (\$0.68 per share) in 1996. However, the impact of outstanding non-vested stock options granted prior to 1996 has been excluded from the pro forma calculation; accordingly, the 1997 and 1996 pro forma adjustments are not indicative of future period pro forma adjustments, when the calculation will apply to all applicable stock options.

8. INCOME TAXES

As of March 31, 1997, the Company had federal and state net operating loss carryforwards of approximately \$46,000,000 and \$15,000,000, respectively. The Company also had federal and state research and development tax credit carryforwards of approximately \$1,600,000 and \$800,000, respectively. The net operating loss and credit carryforwards will expire at various dates from 1998 through 2011, if not utilized. Use of the Company's net operating loss and tax credit carryforwards may be limited if a change in ownership, as defined by the Internal Revenue Code, occurs.

Significant components of the Company's deferred tax assets are as follows:

	1997	1996
	-----	-----
Deferred tax assets:		
Net operating loss carryforwards	\$ 16,500,000	\$ 14,800,000
Research and development credit and manufacturer's investment credit carryforwards	2,400,000	2,100,000
Capitalized research and development	1,000,000	1,300,000
Other, net	600,000	800,000
	-----	-----
	20,500,000	19,000,000
Valuation allowance for deferred tax assets	(20,500,000)	(19,000,000)
	-----	-----
Total deferred tax assets	\$ -	\$ -
	=====	=====

The Company has not recorded any tax provision or credit for income taxes due to the Company's historic losses and uncertainties surrounding the ability to utilize its deferred tax assets in the future.

9. CUSTOMER AND GEOGRAPHIC INFORMATION

Three customers accounted for 34%, 20% and 10%, respectively, of total revenues for the fiscal year ended March 31, 1997. In fiscal year 1996, one customer accounted for 64%, and in fiscal year 1995, two customers accounted for 76% and 23%, respectively, of total revenues.

The following is a summary of revenues by geographic region:

	Years Ended March 31,		
	1997	1996	1995
	-----	-----	-----
United States	\$4,995,000	\$2,436,000	\$1,044,000
Europe	695,000	263,000	-
Japan	1,452,000	82,000	-
Other	152,000	167,000	-
	-----	-----	-----
Total	\$7,294,000	\$2,948,000	\$1,044,000
	=====	=====	=====

10. SUBSEQUENT EVENT

On April 30, 1997, the Company obtained a \$2,000,000 equipment financing loan to be used for equipment purchases and immediately borrowed \$600,000 against the line. Borrowings under this new equipment financing loan are collateralized by the Company's equipment and bear interest at approximately 16%. In connection with this new equipment financing loan, warrants to purchase 106,667 shares of the Company's common stock at an exercise price of \$3.00 per share were issued to the lender.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item (with respect to Directors) is incorporated by reference from the information under the caption "ELECTION OF DIRECTORS" contained in the Company's definitive proxy statement to be filed in connection with the solicitation of proxies for its Annual Meeting of Shareholders tentatively scheduled to be held on September 9, 1997 (the "Proxy Statement").

The following table sets forth certain information concerning the directors and executive officers of the Company as of June 16, 1997.

Name	Age	Title
Gary H. Stroy	54	Chairman of the Board
Clinton H. Severson	49	President, Chief Executive Officer and Director
Vladimir E. Ostoich, Ph.D.	51	Founder, Vice President of Marketing and Sales for North America
Daniel Wong, Ph.D.	45	Vice President of Development
Ting W. Lu	39	Vice President of Finance and Administration, Chief Financial Officer and Secretary
Paul R. Hemmes Ph.D.	52	Vice President of Operations
Prithipal Singh, Ph.D. (2)	58	Director
Richard Bastiani, Ph.D. (2)	54	Director
Brenton G. A. Hanlon (1)	50	Director
Ernest S. Tucker, III, MD (1)	63	Director

- - - - -

- (1) Member of the Audit Committee
 (2) Member of the Compensation Committee

Mr. Stroy, a co-founder of the Company, has served full-time as Chairman of the Board since September 1995. Mr. Stroy served as President and Chief Executive Officer from March 1992 to June 1996. Mr. Stroy also served full-time as Chairman of the Board and Secretary from the Company's incorporation until May 1992 and as Senior Vice President of Sales and Marketing from December 1991 until March 1992. From 1983 to 1989, Mr. Stroy served as President and Chief Executive Officer of Biotrack, Inc. ("Biotrack"), a diagnostic test company which he co-founded and which was sold to Ciba-Geigy in 1990. From 1981 to 1983, he served as Executive Vice President of LifeScan, a diagnostic test company which he co-founded and which was sold to Johnson & Johnson in 1986. Prior to 1981, he was employed in a variety of marketing and management positions by divisions of SmithKline Beecham, American Hospital Supply (Baxter), Syva (Syntex) and Miles Laboratories (Bayer). Mr. Stroy also serves as Chairman of the Board at LXX, a privately-held medical diagnostic company.

Mr. Severson has served as President, Chief Executive Officer and Director of the Company since June 1996. From February 1989 to May 1996, Mr. Severson served as President and Chief Executive Officer of

MAST Immunosystems, Inc., a medical diagnostic company. From 1984 to 1989, Mr. Severson was employed by 3M Diagnostic Systems, an in-vitro allergy test system manufacturer, last serving as General Manager. From 1978 to 1984, Mr. Severson was employed by Syva Company, a medical diagnostic testing company, in various sales and marketing management positions.

Dr. Ostoich, a co-founder of the Company, has served as Vice President in various areas of the Company since its inception. Dr. Ostoich first served as Vice President of Research and Development. Dr. Ostoich has also served as Senior Vice President of Research and Development, Vice President of Engineering and Instrument Manufacturing and Vice President of Research and Engineering. Dr. Ostoich was recently appointed Vice President of Marketing and Sales for North America. From 1988 to 1989, Dr. Ostoich was employed by Proxim, Inc., a wireless data communication company, as Vice President of Engineering. From 1985 to 1987, he was employed as Director of Engineering by Biotrack. From 1980 to 1984, Dr. Ostoich was employed by Hewlett Packard Company in a variety of engineering positions. From 1972 to 1979, Dr. Ostoich held several faculty positions at the Technical University of Denmark.

Dr. Wong joined Abaxis in April 1993 as Methods Development Manager and was named Vice President of Development in May 1994. From January 1995 to February 1996, Mr. Wong also served as Vice President of Development and Reagent Manufacturing. From 1980 to 1993, Dr. Wong was employed by Miles, Inc. (Bayer), a medical products company, in a variety of technical and management positions in its Diagnostics Division.

Ms. Lu joined Abaxis in May 1992 as Controller and was named Vice President of Finance in May 1994 and Secretary in July 1994. Ms. Lu was appointed Chief Financial Officer in September 1995. From January 1995 to February 1996, Ms. Lu also served as Vice President of Finance, Administration, and Materials. From 1991 to 1992, Ms. Lu was employed by Compression Labs, Inc., a telecommunications equipment company, as Assistant Controller. From 1989 to 1991, Ms. Lu served as Controller at GSS Array Corp., a contract manufacturing services company. From 1983 to 1989, Ms. Lu was employed by Xerox Corp., where she held several financial management positions in its Information Products Division. Ms. Lu is a Certified Public Accountant.

Dr. Hemmes joined Abaxis in February 1996 as Vice President of Operations. From 1989 to January 1996 Dr. Hemmes was employed by Environmental Test Systems, Inc., a test device manufacturer, where he served most recently as vice president of research, strategic planning and technology transfer. From 1988 to 1989, Dr. Hemmes was employed by Angenics, Inc., a medical diagnostic company, where he served as vice president of manufacturing. From 1981 to 1988, Dr. Hemmes was employed by Miles, Inc., a medical products company, where he held various technical and management positions. From 1970 to 1981, Dr. Hemmes held several faculty positions at Rutgers University.

Dr. Prithipal Singh joined the Company's Board of Directors in June 1992. Dr. Singh is a founder of ChemTrak, Inc., a manufacturer of medical diagnostic equipment, currently serving as Chairman of the Board and Chief Technical Officer. From 1985 to August 1988, Dr. Singh was a Senior Vice President of Idetek, Inc., a animal health care company. From April 1970 to January 1985, Dr. Singh held a number of positions with Syva Corporation, now a division of Behring Diagnostics, most recently as a Vice President.

Dr. Bastiani joined the Company's Board of Directors in September 1995. Since September 1995, Dr. Bastiani has been President of Activated Cell Therapy, a biotechnology company. Dr. Bastiani served as President of Syva Company, a medical diagnostic testing company, from February 1991 until June 1995. From 1971 to February 1991, Dr. Bastiani held various positions with Syva Company, including as Vice President of Marketing and Sales from 1984 until February 1991.

Dr. Tucker joined the Company's Board of Directors in September 1995. Dr. Tucker has served as Chairman of Pathology at Scripps Clinic and Research Foundation since 1992. From 1989 to 1992, Dr.

Tucker was Chairman of Pathology at California Pacific Medical Center. From 1977 to 1988, Dr. Tucker served as the Director of Immunology Reference Lab of the Research Institute of Scripps Clinic.

Mr. Hanlon joined the Company's Board of Directors in November 1996. Mr. Hanlon is President and COO of Tri-Continent Scientific, a subsidiary of Hitachi Chemical, and a manufacturer of instrumentation for diagnostic applications. Mr. Hanlon served as Vice President and General Manager of Tri-Continent Scientific from 1989 to 1996. From 1984 to 1989, Mr. Hanlon was President of Corus Medical, a medical products company. From 1980 to 1984 he held various marketing positions with Syva Company, a medical diagnostic company.

All directors hold office until the next annual meeting of shareholders of the Company and until their successors have been elected and qualified. The Company's Bylaws authorize the Board of Directors to fix the number of directors at not less than four nor more than seven. The authorized number of directors of the Company is currently six.

Each officer serves at the discretion of the Board of Directors. There are no family relationships among any of the directors or officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from the Company's definitive Proxy Statement to be filed for the Company's tentatively scheduled annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from the Company's definitive Proxy Statement to be filed for the Company's tentatively scheduled annual meeting of shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from the Company's definitive Proxy Statement to be filed for the Company's tentatively scheduled annual meeting of shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) List of documents filed as part of this report:

1. Financial Statements

Reference is made to the Index to Financial Statements under Item 8 of

Part II hereof, where these documents are included.

2. Financial Statement Schedules

There are no financial statement schedules filed as part of this report because such schedules are not required to be set forth therein or the information is shown in the financial statements or notes thereto.

3. Exhibits filed with this Report on Form 10-K (numbered in accordance with Item 601 of Regulation S-K)

Exhibit Number -----	Description -----	Sequential Page Number -----
10.20	Employment Agreement with Mr. Clinton H. Severson dated March 31, 1997	46
10.21	Amendment to the Lease Agreement between the Company and South Bay/Caribbean dated March 11, 1997	50
10.22	Equipment Loan Agreement between the Company and Transamerica Business Credit dated March 4, 1997	54
22.1	Subsidiaries of the Registrant	69
23.1	Consent of Deloitte & Touche LLP, Independent Auditors	70
23.2	Consent of Ernst & Young LLP, Independent Auditors	71
27.1	Financial Data Schedule	72

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

BY /s/ Clinton H. Severson

Clinton H. Severson
President and Chief Executive Officer

June 30, 1997

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Clinton H. Severson ----- Clinton H. Severson	President, Chief Executive Officer and Director (Principal Executive Officer)	June 30, 1997
/s/ Ting W. Lu ----- Ting W. Lu	Vice President of Finance & Administration, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	June 30, 1997
/s/ Gary H. Stroy ----- Gary H. Stroy	Chairman of the Board of Directors	June 30, 1997
/s/ Richard Bastiani ----- Richard Bastiani	Director	June 30, 1997
/s/ Brenton G. A. Hanlon ----- Brenton Hanlon	Director	June 30, 1997
/s/ Prithipal Singh ----- Prithipal Singh	Director	June 30, 1997
/s/ Ernest Tucker ----- Ernest Tucker	Director	June 30, 1997

EXHIBITS INDEX

Exhibit No. ---	Description of Document -----
3.1	Restated Articles of Incorporation, as amended (5) (10)
3.2	By-laws of the Company (1)
10.5	1989 Stock Option Plan as amended and forms of agreement (3)
10.6	1992 Outside Directors Stock Option Plan and forms of agreement (4)
10.7	401(k) Plan (1)
10.8	Lease Agreement between the Company and South Bay/Caribbean dated March 11, 1992 (3)
10.13	Exclusive Distribution Agreement dated September 20, 1991 between the Company and Teramecs (1) (2)
10.14	Sponsored Research Agreement dated as of September 20, 1991 between the Company and Teramecs (1) (2)
10.15	Development Agreement between the Company and Becton Dickinson and Company (through its Becton Dickinson Immunocytometry Systems Division) dated April 9, 1993 (5) (6)
10.16	Distribution agreement between the Company and VedCo, Inc. dated June 20, 1994 (6)
10.17	Supply Agreement between the Company and Becton Dickinson and Company (through its Becton Dickinson Immunocytometry Systems Division) dated September 16, 1994 (6) (7)
10.18	Licensing agreement between the Company and Pharmacia Biotech, Inc. dated October 1, 1994 (6) (7)
10.19	Employment Agreement with Mr. Gary H. Stroy dated March 11, 1995 (8)
10.20	Employment Agreement with Mr. Clinton H. Severson dated March 31, 1997 (Page 46)
10.21	Amendment to the Lease Agreement between the Company and South Bay/Caribbean dated March, 11, 1997 (Page 50)
10.22	Equipment Loan Agreement between the Company and Transamerica Business Credit dated March 4, 1997 (Page 54)
16.1	Letter from Ernst & Young LLP dated January 30, 1996 (9)
22.1	Subsidiaries of Registrant (Page 69)
23.1	Consent of Deloitte & Touche LLP, Independent Auditors (Page 70)
23.2	Consent of Ernst & Young LLP, Independent Auditors (Page 71)
27.1	Financial Data Schedule (Page 72)

- (1) Incorporated by reference from Registration Statement No. 33-44326 filed December 11, 1991.
- (2) Confidential treatment of certain portions of these agreements has been granted.
- (3) Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1992.
- (4) Incorporated by reference to the exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1992.
- (5) Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1993.
- (6) Confidential treatment of certain portions of these agreements has been granted.
- (7) Incorporated by reference to the exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994.
- (8) Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1995.
- (9) Incorporated by reference to the Company's Report on Form 8-K filed February 1, 1996.
- (10) Incorporated by reference to the exhibit filed with the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1996.

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EMPLOYMENT AGREEMENT

This Employment Agreement is made and entered into by and between ABAXIS, Inc. (the "Company") and Clinton H. Severson ("Severson").

1. POSITION AND DUTIES: You will be employed by the Company as President and Chief Executive Officer and Director reporting to the Company's Board of Directors (the "Board"). You accept employment with the Company on the terms and conditions set forth in this Agreement, and you agree to devote your full business time, energy and skill to your duties at the Company. These duties shall include, but not be limited to, any duties consistent with your position, as well as any other duties which may be assigned to you from time to time by the Board.

2. TERM OF EMPLOYMENT: Your employment with the Company is for a three year period, commencing on June 24, 1996, subject to the provisions regarding termination set forth below. If you and the Company desire to continue your employment beyond three years, you and the Company may extend your employment by written agreement. Upon the termination of your employment, neither you nor the Company shall have any further obligation or liability to the other, except as set forth in Paragraphs 4 and 5 below.

3. COMPENSATION: You will be compensated by the Company for your services as follows:

(a) Salary: You will be paid a monthly salary of \$16,667.00, less applicable withholding, in accordance with the Company's normal payroll procedures. Your salary will be reviewed by the Compensation Committee of the Board on an annual basis, and may be subject to adjustment based upon various factors including, but not limited to, your performance and the Company's profitability. Any adjustment to your salary shall be in the sole discretion of the Board.

(b) Bonus: You will be eligible to participate in the Company's executive performance bonus plan, under terms to be negotiated within 90 days of your start date.

(c) Benefits: You will have the right, on the same basis as other executive employees of the Company, to participate in and to receive benefits under the Company's group health, dental and disability insurance plans, as well as under the Company's 401(k) plan. In addition, you will accrue paid time off of 30 days per year for vacation, or sick time purposes.

(d) Stock Options: Subject to the Board's approval, you will be granted one or more options to purchase a total of 250,000 shares of the

Company's common stock, which will be treated as an incentive stock option to the maximum extent permitted under the Internal Revenue Code and the Company's Stock Option Plan, at the stock's fair market value on June 26, 1996, the date of the grant; such option(s) will vest 25% at the end of your first year of employment with the Company and 1/48th per month thereafter, unless the Company is sold (in which case all unvested shares subject to the option will immediately vest).

Your receipt of the foregoing option will be subject to your acceptance of the Company's standard form of stock option agreement and the Company's Stock Option Plan, which will set forth the specific terms and conditions governing each option.

4. BENEFITS UPON VOLUNTARY TERMINATION: In the event that you resign from your employment with the Company, or in the event that your employment terminates as a result of your death or disability, you shall be entitled to no compensation or benefits from the Company other than those earned under Paragraph 3 through the date of your termination or as may be required by law. In particular, you shall not be entitled to any bonus under subsection 3(b) unless that bonus was earned prior to the date of your termination. You agree that in the event you resign from your employment with the Company for any reason, you shall provide the Company with two months' written notice of your resignation. The Company may, in its sole discretion, elect to waive all or any part of such notice period and accept your resignation at an earlier date.

5. BENEFITS UPON OTHER TERMINATION: Notwithstanding Paragraph 2 above, you agree that your employment may be terminated by the Company at any time, with or without cause. In the event your employment is terminated by the Company for the reasons set forth below, you shall be entitled to the following:

(b) Termination for Cause: If your employment is terminated by the Company at any time for cause, you shall be entitled to no compensation or benefits from the Company other than those earned under Paragraph 3 through the date of your termination. In particular, you shall not be entitled to any bonus under subsection 3(b) unless that bonus was earned prior to the date of your termination for cause.

For purposes of this Agreement, a termination "for cause" occurs if you are terminated for any of the following reasons: (i) theft, dishonesty, or falsification of any employment or Company records; (ii) improper disclosure of the Company's confidential or proprietary information; (iii) any action by you which has a material detrimental effect on the Company's reputation or business; (iv) your failure or inability to perform any reasonable assigned duties

after written notice from the Company of, and a reasonable opportunity to cure, such failure or inability; or (v) your conviction for any criminal act which impairs your ability to perform your duties under this Agreement.

(c) Termination for Other than Cause: If your employment is terminated by the Company for any reason other than cause, you shall receive severance payments at your final salary rate, less applicable withholding, for a period of six months following such termination. Severance payments will be made in accordance with the Company's normal payroll procedures, and will be less applicable withholding. In addition to any severance to which you are entitled under this subsection, you shall also be entitled to receive any compensation and benefits which you earn under Paragraph 3 through the date of your termination; provided, however, that you shall not be entitled to any bonus under subsection 3(b) unless that bonus was earned prior to the date of your termination.

6. EXCLUSIVE REMEDY: We agree that the severance payments described in Paragraph 5(b) shall be your sole and exclusive remedy in the event that the Company terminates your employment without cause, and you shall be entitled to no other compensation for any damage or injury arising out of the termination of your employment by the Company.

7. CONFIDENTIAL AND PROPRIETARY INFORMATION: As a condition of your employment with the Company, you agree to sign its standard form of employee confidentiality and assignment of inventions agreement at the start of your employment.

8. DISPUTE RESOLUTION: In the event of any dispute or claim relating to or arising out of our employment relationship, the termination of that relationship or this Agreement (including, but not limited to, any claims of wrongful termination or age or other discrimination), we agree that all such disputes shall be fully and finally resolved by binding arbitration conducted by the American Arbitration Association in Santa Clara County, California. We hereby agree to waive our respective rights to have any such disputes tried by a judge or jury. Provided, however, that this arbitration provision shall not apply to any disputes or claims relating to or arising out of the actual or alleged misuse or misappropriation of the Company's trade secrets or proprietary information.

9. ATTORNEYS' FEES: The prevailing party shall be entitled to recover from the losing party its attorneys' fees and costs incurred in any action brought to enforce any right arising out of this Agreement.

10. INTERPRETATION: This Agreement shall be interpreted in accordance with and governed by the laws of the State of California.

11. ASSIGNMENT: In view of the personal nature of the services to be performed under this Agreement by you, you shall not have the right to assign or transfer any of your obligations under this Agreement.

12. ENTIRE AGREEMENT: This letter, along with any agreements relating to proprietary rights or stock options referred to herein, constitute the entire agreement between you and the Company regarding the terms and conditions of your employment, and they supersede all prior negotiations, representations or agreements between you and the Company regarding your employment, whether written or oral.

13. MODIFICATION: This Agreement may only be modified or amended by a supplemental written agreement signed by you and an authorized member of the Board.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date and year written below.

Sincerely,
ABAXIS, INC.

Date: _____

By: _____

Its: _____

Date: _____

Clinton H. Severson

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SECOND AMENDMENT TO LEASE

THIS SECOND AMENDMENT TO LEASE ("Amendment") is executed as of this 11 day of March, 1997 by and between MP CARIBBEAN, INC., a Delaware corporation ("Landlord"), and ABAXIS, INC., a California corporation ("Tenant"), with reference to the following:

R E C I T A L S

A. Tenant and Landlord are presently parties to that certain Lease Agreement dated as of March 11, 1992, as amended pursuant to that certain First Amendment to Lease of even date therewith (collectively, the "Lease"). Pursuant to the Lease, Landlord has leased to Tenant approximately 38,304 square feet of industrial space located in the Caribbean Corporate Center, Sunnyvale, California as more particularly described in the Lease (the "Premises").

B. The Lease expires by its express terms on July 17, 1997.

C. Landlord and Tenant now desire to provide for the early renewal of the Lease, upon the terms and conditions contained herein.

A G R E E M E N T

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant agree as follows:

1. Recitals; Definitions. Landlord and Tenant agree that each of the foregoing recitals is true and correct and incorporated herein by this reference. All words and phrases having their initial letters capitalized in this Amendment and not otherwise defined herein shall have the meanings set forth in the Lease.

2. Term. Landlord and Tenant hereby acknowledge and agree that the expiration date of the Lease Term is hereby extended from July 17, 1997 to July 17, 2000.

3. Monthly Installment of Rent. Notwithstanding anything to the contrary contained in Section 4.B. of the Lease, the Monthly Installment of rent for the Premises shall as follows:

(a) From July 18, 1997 through and including July 17, 1998, the Monthly Installment of rent shall be \$55,541.00.

(b) From July 18, 1998 through and including July 17, 1999, the Monthly Installment of rent shall be \$57,456.00.

(c) From July 18, 1999 through and including July 17, 2000, the Monthly Installment of rent shall be \$59,371.00.

4. Security Deposit. Concurrently with the execution of this Amendment, Tenant shall pay to Landlord the further sum of \$24,897.40 which sum shall be and remain a part of the Security Deposit held by Landlord pursuant to the Lease. Upon Landlord's receipt of such sum, the total aggregate Security Deposit held by Landlord shall be \$59,371.00.

5. Inapplicable Provisions. Landlord and Tenant acknowledge and agree that Sections 40, 41 and 42 of the Lease are no longer applicable and that Sections 40, 41 and 42 of the Lease are hereby deleted in their entirety and shall be of no further force or effect.

6. Personal Liability. Notwithstanding anything to the contrary contained in the Lease, the liability of Landlord, any agent of Landlord, or any of their respective officers, directors, shareholders, or employees to Tenant for or in respect of any default by Landlord under the terms of the Lease, as amended by this Amendment, or in respect of any other claim or cause of action shall be limited to the interest of Landlord in the Project, and Tenant agrees to look solely to Landlord's interest in the Project for the recovery and satisfaction of any judgment against Landlord, any agent of Landlord, or any of their respective officers, directors, shareholders, and employees.

7. Insurance and Indemnification. The word "gross" is hereby inserted into line 12 of Section 8.A. of the Lease immediately between the word "the" and the word "negligence".

8. Hazardous Materials. Exhibit F to the Lease is hereby deleted in its entirety and a revised Exhibit F in form attached to this Amendment as Exhibit F-1 is hereby substituted in its place and stead.

9. Waiver of Jury Trial. LANDLORD AND TENANT HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON THE LEASE, AS AMENDED HEREBY, ARISING OUT OF, UNDER OR IN CONNECTION WITH THE LEASE, THIS AMENDMENT OR ANY DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION THEREWITH OR HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF EITHER PARTY ARISING OUT OF OR RELATED IN ANY MANNER WITH THE PREMISES (INCLUDING WITHOUT LIMITATION, ANY ACTION TO RESCIND OR CANCEL THE LEASE, AS AMENDED BY THIS AMENDMENT, OR ANY CLAIMS OR DEFENSES ASSERTING THAT THE LEASE, AS AMENDED BY THIS AMENDMENT, WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS

WAIVER IS A MATERIAL INDUCEMENT FOR LANDLORD TO ENTER AND ACCEPT THIS AMENDMENT.

10. Representations and Warranties. Tenant hereby represents, warrants and agrees that: (i) there exists no Event of Default under the Lease, as amended by this Amendment, or any event or condition which, with notice or passage of time or both, would constitute an Event of Default on the part of Tenant under the Lease, as amended by this Amendment; (ii) the Lease, as amended by this Amendment, continues to be a legal, valid and binding agreement and obligation of Tenant; (iii) Landlord is not in default under the Lease, as amended by this Amendment; and (iv) Tenant has no offset or defense to performance of its obligations under the Lease, as amended by this Amendment.

11. Brokers. Tenant represents and warrants that Tenant has had no dealing with any broker in connection with the negotiation or execution of this Amendment, and Tenant agrees to indemnify Landlord and hold Landlord harmless from any and all costs, expenses or liabilities for commissions or other compensation claimed by any broker or agent.

12. Additional Provisions.

(a) Time of the Essence. Time is of the essence of this Amendment and each and every provision hereof.

(b) Entire Agreement. This Amendment constitutes the entire agreement between Landlord and Tenant with respect to the extension and modification of the Lease, and all prior or contemporaneous negotiations and agreements relating thereto, whether oral or written, are merged herein and shall be of no further force or effect.

(c) No Other Changes. Except to the limited extent specifically provided herein, the Lease remains unmodified and in full force and effect on the terms, covenants and conditions set forth therein.

(d) Conflict Among Documents. In the event of any conflict between the terms and conditions contained in this Amendment and the terms and conditions contained in the Lease, the terms and conditions of this Amendment shall prevail and be controlling.

(e) Headings. Paragraph headings contained in this Amendment are for reference purposes only, and shall not affect in any way the meaning or interpretations of this Agreement.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Amendment as of the day and year first above written.

Landlord:

MP CARIBBEAN, INC.,
a Delaware corporation

By: GE CAPITAL INVESTMENT ADVISORS, INC.,
its agent

/s/ Jerry D. Binkley

Chief Operating Officer

Tenant:

ABAXIS, INC.,
a California corporation

/s/ Paul Hemmes

Vice President of Operations

EXHIBIT F-1
UPDATED SCHEDULE OF PERMITTED HAZARDOUS MATERIALS
[TO BE PROVIDED BY TENANT AND APPROVED BY LANDLORD]

</TEXT>
</DOCUMENT>

SECURITY AGREEMENT

THIS SECURITY AGREEMENT dated as of March 31, 1997. is made by Abaxis, Inc. (the "Borrower"), a California corporation having its own principal place of business and chief executive office at 1320 Chesapeake Terrace, Sunnyvale, CA 94089, in favor of Transamerica Business Credit Corporation, a Delaware corporation (the "Lender"), having its principal office at Riverway II, West Office Tower, 9399 West Higgins Road, Rosemont, Illinois 60018.

WHEREAS, the Borrower has requested that the Lender make Loans to it from time to time; and Security Agreement.

WHEREAS, the Lender has agreed to make such Loans on the terms and conditions of this Security Agreement.

NOW, THEREFORE, in consideration of the premises and to induce the Lender to extend credit, the Borrower hereby agrees with the Lender as follows:

1. DEFINITIONS.

As used herein, the following terms shall have the following meanings, and shall be equally applicable to both the singular and plural forms of the terms defined:

Applicable Law shall mean the laws of the State of Illinois (or any other jurisdiction whose laws are mandatorily applicable notwithstanding the parties' choice of Illinois law) or the laws of the United States of America, whichever laws allow the greater interest, as such laws now exist or may be changed or amended or come into effect in the future.

Business Day shall mean any day other than Saturday, Sunday or public holiday or the equivalent for banks in New York City.

Code shall have the meaning specified in Section 8(d).

Collateral shall have the meaning specified in Section 2.

Collateral Access Agreement shall mean any landlord waiver, mortgage waiver, bailee letter or similar acknowledgment of any warehouseman or processor in possession of any Equipment, in each case substantially in the form of Exhibit A.

Effective Date shall mean the date on which all of the conditions specified in Section 3.3 shall have been satisfied.

Equipment shall have the meaning specified in Section 2.

Event of Default shall mean any event specified in Section 7.

Financial Statements shall have the meaning specified in Section 6.1.

GAAP shall mean generally accepted accounting principles in the United States of America, as in effect from time to time.

Loans shall mean the loans and financial accommodations made by the Lender to the Borrower in accordance with the terms of this Security Agreement and the Notes.

Loan Documents shall mean, collectively, this Security Agreement, the Notes and all other documents, agreements, certificates, instruments and opinions executed and delivered in connection herewith and therewith, as the same may be modified, extended, restated or supplemented from time to time.

Material Adverse Change shall mean, with respect to any Person, a material adverse change in the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of such Person taken as a whole.

Material Adverse Effect shall mean, with respect to any Person, a material adverse effect on the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of such Person taken as a whole.

Note shall mean each Promissory Note made by the Borrower in favor of the Lender, as amended, supplemented or otherwise modified from time to time, in each case substantially in the form of Exhibit B.

Obligations shall mean all indebtedness, obligations and liabilities of the Borrower under the Notes and under this Security Agreement, whether on account of principal, interest, indemnities, fees (including without limitation, attorney's fees, remarketing fees, origination fees, collection fees and all other professionals' fees), costs, expenses, taxes or otherwise.

Permitted Liens shall mean such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced: (a) liens for taxes, assessments and other governmental charges or levies or the claims or demands of landlords, carriers, warehousemen, mechanics, laborers, materialmen and other like Persons arising by operation of law in the ordinary course of business for sums which are not yet due and payable, or liens which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves are maintained to the extent required by GAAP; (b) deposits or pledges to secure the payment of workmen's compensation, unemployment insurance or other social security benefits or obligations, public or statutory obligations, surety or appeal bonds, bid or performance bonds, or other obligations of a like nature incurred in the ordinary course of business; (c) licenses, restrictions or covenants for or on the use of the Equipment which do not materially impair either the use of the Equipment in the operation of the business of the Borrower or the value of the Equipment; and (d) attachment or judgment liens that do not constitute an Event of Default.

Person shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (including any division, agency or department thereof), and the successors, heirs and assigns of each.

Schedule shall mean each Schedule in the form of Schedule A hereto delivered by the Borrower to the Lender from time to time.

Security Agreement shall mean this Security Agreement together with all schedules and exhibits hereto, as amended, supplemented or otherwise modified from time to time.

Solvent means, with respect to any Person, that as of the date as to which such Person's solvency is measured:

(a) the fair saleable value of its assets is in excess of the total amount of its liabilities (including contingent liabilities as valued in accordance with GAAP) as they become absolute and matured:

(b) it has sufficient capital to conduct its business; and

(c) it is able generally to meet its debts as they mature.

Taxes shall have the meaning specified in Section 5.5.

2. CREATION OF SECURITY INTEREST; COLLATERAL. The Borrower hereby assigns and grants to the Lender a continuing general, first priority lien on any security interest in, all the Borrower's right, title and interest in and to the collateral described in the next sentence (the "Collateral") to secure the payment and performance of all the Obligations. The Collateral consists of all equipment set forth on all the Schedules delivered from time to time under the terms of this Security Agreement (the "Equipment"), together with all present and future additions, parts, accessories, attachments, substitutions, repairs, improvements and replacements thereof or thereto, and any and all proceeds thereof, including without limitation, proceeds of insurance and all manuals, blueprints, know-how, warranties and records in connection therewith, all rights against suppliers, warrantors, manufacturers, sellers or others in connection therewith, and together with all substitutes for any of the foregoing.

3. THE CREDIT FACILITY.

3.1 BORROWINGS. Each Loan shall be in an amount not less than \$50,000.00, and in no event shall the sum of the aggregate Loans made exceed the amount of the Lender's written commitment to the Borrower in effect from time to time. Notwithstanding anything herein to the contrary, the Lender shall be obligated to make the initial Loan and each other Loan only after the Lender, in its sole discretion, determines that the applicable conditions for borrowing contained in Section 3.3 and 3.4 are satisfied.

3.2 APPLICATION OF PROCEEDS. The Borrower shall not directly or indirectly use any proceeds of the Loans, or cause, assist, suffer or permit the use of any proceeds of the Loans, for any purpose other than for the purchase, acquisition, installation or upgrading of Equipment or the reimbursement of the Borrower for its purchase, acquisition, installation or upgrading of Equipment.

3.3 CONDITIONS OF INITIAL LOAN.

(a) The obligation of the Lender to make the initial Loan is subject to the Lender's receipt of the following, each dated the date of the initial Loan or as of an earlier date acceptable to the Lender, in form and substance satisfactory to the Lender and its counsel:

(i) completed requests for information (Form UCC-11) listing all effective Uniform Commercial Code financing statements naming the Borrower as debtor and all tax lien, judgment and litigation searches for the Borrower as the Lender shall deem necessary or desirable;

(ii) Uniform Commercial Code financing statements (Form UCC-1) duly executed by the Borrower (naming the Lender as secured party and the Borrower as debtor and in form acceptable for filing in all jurisdictions that the Lender deems necessary or desirable to perfect the security interests granted to it hereunder) and, if applicable, termination statements or other releases duly filed in all jurisdictions that the Lender deems necessary or desirable to perfect and protect the priority of the security interests granted to it hereunder in the Equipment related to such initial Loan;

(iii) a Note duly executed by the Borrower evidencing the amount of such Loan;

(iv) a Collateral Access Agreement duly executed by the lessor or mortgage, as the case may be, of each premises where the Equipment is located;

(v) certificates of insurance required under Section 5.4 of this Security Agreement together with loss payee endorsements for all such policies naming the Lender as lender loss payee and as an additional insured;

(vi) a copy of the resolutions of the Board of Directors of the Borrower (or a unanimous consent of directors in lieu thereof) authorizing the execution, delivery and performance of this Security Agreement, the other Loan Documents, and the transactions contemplated hereby and thereby, attached to which is a certificate of the Secretary or an Assistant Secretary of the Borrower certifying (A) that the copy of the resolutions is true, complete and accurate, that such resolutions have not been amended or modified since the date of such certification and are in full force and effect and (B) the incumbency, names and true signatures of the officers of the Borrower authorized to sign the Loan Documents to which it is a party;

(vii) a duly executed warrant made by the Borrower in favor of the Lender issued as of April 30, 1997; and

(viii) such other agreements and instruments as the Lender deems necessary in its sole and absolute discretion in connection with the transaction contemplated hereby.

(b) There shall be no pending or, to the knowledge of the Borrower after due inquiry, threatened litigation, proceeding, inquiry or other action (i) seeking an injunction or other restraining order, damages or other relief with respect to the transactions contemplated by this Security Agreement or the other Loan Documents or thereby or (ii) which affects or could affect the business, prospects, operations, assets, liabilities or condition (financial or otherwise) of the Borrower, except, in the case of clause (ii), where such litigation, proceeding, inquiry or other action could not be expected to have a Material Adverse Effect in the judgment of the Lender.

(c) The Borrower shall have paid all fees and expenses required to be paid by it to the Lender as of such date.

(d) The security interests granted in favor of the Lender under this Security Agreement in the Equipment related to the initial Loan shall have been duly perfected and shall constitute first priority liens;

3.4 CONDITIONS PRECEDENT TO EACH LOAN. The obligation of the Lender to make each Loan is subject to the satisfaction of the following conditions precedent:

(a) the Lender shall have received the documents, agreements and instruments set forth in Section 3.3(a) (i) through (v) applicable to such Loan, each in form and substance satisfactory to the Lender and its counsel and each dated the date of such Loan or as of any earlier date acceptable to the Lender;

(b) the security interests granted in favor of the Lender under this Security Agreement in the Equipment related to such Loan shall have been duly perfected and shall constitute first priority liens;

(c) all representations and warranties contained in this Security Agreement and the other Loan Documents shall be true and correct on and as of the date of such Loan as if then made, other than representations and warranties that expressly relate solely to an earlier date, in which case they shall have been true and correct as of such earlier date;

(d) no Event of Default or event which with the giving of notice or the passage of time, or both, would constitute an Event of Default shall have occurred and be continuing or would result from the making of the requested Loan as of the date of such request; and

(e) the Borrower shall be deemed to have hereby reaffirmed and ratified all security interests, liens and other encumbrances heretofore granted by the Borrower to the Lender.

4. THE BORROWER'S REPRESENTATIONS AND WARRANTIES.

4.1 GOOD STANDING; QUALIFIED TO DO BUSINESS. The Borrower (a) is duly organized, validly existing and in good standing under the laws of the State of its organization, (b) has the power and authority to own its properties and assets and to transact the businesses in which it is presently, or proposes to be, engaged and (c) is duly qualified and authorized to do business and is in good standing in every jurisdiction in which the failure to be so qualified could have a Material Adverse Effect on (i) the Borrower, (ii) the Borrower's ability to perform its obligations under the Loan Documents or (iii) the rights of the Lender hereunder.

4.2 DUE EXECUTION, ETC. The execution, delivery and performance by the Borrower of each of the Loan Documents to which it is a party are within the powers of the Borrower, do not contravene the organizational documents, if any, of the Borrower, and do not (a) violate any law or regulation, or any order or decree of any court or governmental authority, (b) conflict with or result in a breach of, or constitute a default under, any material indenture, mortgage or deed of trust or any material lease, agreement or other instrument binding on the Borrower or any of its properties, or (c) require the consent, authorization by or approval of or notice to or filing or registration with any governmental authority or other Person. This Security Agreement is, and each of the other Loan Documents to which the Borrower is or will be a party, when delivered hereunder or thereunder, will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

4.3 SOLVENCY; NO LIENS. The Borrower is Solvent and will be Solvent upon the completion of all transactions contemplated to occur hereunder (including, without limitation, the Loan to be made on the Effective Date); the security interests granted herein constitute and shall at all times constitute the first and only liens on the Collateral other than Permitted Liens and the security interests of Silicon Valley Bank ("SVB") which are junior to the security interests of the Lender as more particularly described in the Subordination Letter between SVB and the Lender; and the Borrower is, or will be at the time additional Collateral is acquired by it, the absolute owner of the Collateral with full right to pledge, sell, consign, transfer and create a security interest therein, free and clear of any and all claims or liens in favor of any other Person other than Permitted Liens and the security interests of SVB which are junior to the security interests of the Lender.

4.4 NO JUDGMENTS, LITIGATION. No judgments are outstanding against the Borrower nor is there now pending or, to the best of the Borrower's knowledge after diligent inquiry, threatened any litigation, contested claim, or governmental proceedings by or against the Borrower except judgments and pending or threatened litigation, contested claims and governmental proceedings which would not, in the aggregate, have a Material Adverse Effect on the Borrower.

4.5 NO DEFAULTS. The Borrower is not in default or has not received a notice of default under any contract, lease, or commitment to which it is a party or by which it is bound and which could have a Material Adverse Effect on the Borrower. The Borrower knows of no dispute regarding any contract, lease, or commitment which could have a Material Adverse Effect on the Borrower.

4.6 COLLATERAL LOCATIONS. On the date hereof, each item of the Collateral is located at the place of business specified in the applicable Schedule.

4.7 NO EVENT OF DEFAULT. No Event of Default has occurred and is continuing nor has any event occurred which, with the giving of notice or the passage of time, or both, would constitute an Event of Default.

4.8 NO LIMITATION ON LENDER'S RIGHTS. Except as permitted herein and as set forth on Schedule B hereto as supplemented from time to time, none of the Collateral is subject to contractual obligations that may restrict or inhibit the Lender's rights or abilities to sell or dispose of the Collateral or any part thereof after the occurrence of an Event of Default.

4.9 PERFECTION AND PRIORITY OF SECURITY INTEREST. This Security Agreement creates a valid and, upon completion of all required filings of financing statements, perfected first priority and exclusive security interest in the Collateral (other than the security interest of SVB which are junior to the security interests of the Lender), securing the payment of all the Obligations.

4.10. MODEL AND SERIAL NUMBERS. The Schedules set forth the true and correct model number and serial number of each item of Equipment that constitutes Collateral.

4.11 ACCURACY AND COMPLETENESS OF INFORMATION. All data, reports and information heretofore, contemporaneously or hereafter furnished by or on behalf of the Borrower in writing to the Lender or for purposes of or in connection with this Security Agreement or any other Loan Document, or any transaction contemplated hereby or thereby, are or will be true and accurate in all material respects on the date as of which such data, reports and information are dated or certified and not incomplete by omitting to state any material fact the Borrower which individually or in aggregate would reasonably be expected to have a Material Adverse Effect and which have not been specified herein, in the Financial Statements, or in any certificate, opinion or other written statement previously furnished by the Borrower to the Lender.

5. COVENANTS OF THE BORROWER.

5.1 EXISTENCE, ETC. The Borrower will maintain its existence, its current yearly accounting cycle, and shall maintain in full force and effect all licenses, bonds, franchises, leases, trademarks, patents, contracts and other rights necessary or desirable to the profitable conduct of its business unless the failure to do so could not reasonably be expected to have a Material Adverse Effect on the Borrower, shall continue in, and limit its operations to, the same general lines of business as those presently conducted by it and shall comply with all applicable laws and regulations of any federal, state or local governmental authority, except for such laws and regulations the violations of which would not, in the aggregate, have a Material Adverse Effect on the Borrower.

5.2 NOTICE TO THE LENDER. As soon as possible, and in any event within five days after the Borrower learns of the following, the Borrower will give written notice to the Lender of (a) any proceeding instituted or threatened to be instituted by or against the Borrower in any federal, state, local or foreign court or before any commission or other regulatory body (federal, state, local or foreign) involving a sum, together with the sum involved in all other similar proceedings, in excess of \$50,000 in the aggregate, (b) any contract that is terminated or amended and which has had or could reasonably be expected to have a Material Adverse Effect on the Borrower, (c) the occurrence of any Material Adverse

Change with respect to the Borrower and (d) the occurrence of any Event of Default or event or condition which, with notice or lapse of time or both, would constitute an Event of Default, together with a statement of the action which the Borrower has taken or proposes to take with respect thereto.

5.3 MAINTENANCE OF BOOKS AND RECORDS. The Borrower will maintain books and records pertaining to the Collateral in such detail, form and scope as the Lender shall require in its commercially reasonable judgment. The Borrower agrees that the Lender or its agents may enter upon the Borrower's premises at any time and from time to time during normal business hours, and at any time upon the occurrence and continuance of an Event of Default, for the purpose of inspecting the Collateral and any and all records pertaining thereto.

5.4 INSURANCE. The Borrower will maintain insurance on the Collateral under such policies of insurance, with such insurance companies, in such amounts and covering such risks as are at all times satisfactory to the Lender. All such policies shall be made payable to the Lender, in case of loss, under a standard non-contributory "lender" or "secured party" clause and are to contain such other provisions as the Lender may reasonably require to protect the Lender's interests in the Collateral and to any payments to be made under such policies. Certificates of insurance policies are to be delivered to the Lender, premium prepaid, with the loss payable endorsement in the Lender's favor, and shall provide for not less than thirty days' prior written notice to the Lender, of any alteration or cancellation of coverage. If the Borrower fails to maintain such insurance, the Lender may arrange for (at the Borrower's expense and without any responsibility on the Lender's part for) obtaining the insurance. Unless the Lender shall otherwise agree with the Borrower in writing, the Lender shall have the sole right, in the name of the Lender or the Borrower, to file claims under any insurance policies, to receive and give acquittance for any payments that may be payable thereunder, and to execute any endorsements, receipts, releases, assignments, reassignments or other documents that may be necessary to effect the collection, compromise or settlement of any claims under any such insurance policies.

5.5 TAXES. The Borrower will pay, when due, all taxes, assessments, claims and other charges ("Taxes") lawfully levied or assessed against the Borrower or the Collateral other than taxes that are being diligently contested in good faith by the Borrower by appropriate proceedings promptly instituted and for which an adequate reserve is being maintained by the Borrower in accordance with GAAP. If any Taxes remain unpaid after the date fixed for the payment thereof, or if any lien shall be claimed therefor, then, without notice to the Borrower, but on the Borrower's behalf, the Lender may pay such Taxes, and the amount thereof shall be included in the Obligations.

5.6 BORROWER TO DEFEND COLLATERAL AGAINST CLAIMS; FEES ON COLLATERAL. The Borrower will defend the Collateral against all claims and demands of all Persons at any time claiming the same or any interest therein. The Borrower will not permit any notice creating or otherwise relating to liens on the Collateral or any portion thereof to exist or be on file in any public office other than Permitted Liens and the security interests of SVB which are junior to the security interests of the Lender. The Borrower shall promptly pay, when payable, all transportation, storage and warehousing charges and license fees, registration fees, assessments, charges, permit fees and taxes (municipal, state and federal) which may now or hereafter be imposed upon the ownership, leasing, renting, possession, sale or use of the Collateral, other than taxes on or measured by the Lender's income and fees, assessments, charges and taxes which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves are maintained to the extent required by GAAP.

5.7 NO CHANGE OF LOCATION, STRUCTURE OR IDENTITY. The Borrower will not (a) change the location of its chief executive office or establish any place of business other than those specified herein or (b) move or permit the movement of any item of Collateral from the location specified in the applicable Schedule, except that the Borrower may change its chief executive office and keep Collateral at other locations within the United States provided that the Borrower has delivered to the Lender (i) prior written notice thereof and (ii) duly executed financing statements and other agreements

and instruments (all in form and substance satisfactory to the Lender) necessary or, in the opinion of the Lender, desirable to perfect and maintain in favor of the Lender a first priority security interest in the Collateral. Notwithstanding anything to the contrary in the immediately preceding sentence, the Borrower may keep any Collateral consisting of motor vehicles or rolling stock at any location in the United States provided that the Lender's security interest in any such Collateral is conspicuously marked on the certificate of title thereof and the Borrower has complied with the provision of Section 5.9.

5.8 USE OF COLLATERAL; LICENSES; REPAIR. The Collateral shall be operated by competent, qualified personnel in connection with the Borrower's business purposes, for the purpose for which the Collateral was designed and in accordance with applicable operating instructions, laws and governmental regulations, and the Borrower shall use every reasonable precaution to prevent loss or damage to the Collateral from fire and other hazards. The Collateral shall not be used or operated for personal, family or household purposes. The Borrower shall procure and maintain in effect all orders, licenses, certificates, permits, approvals and consents required by federal, state or local laws or by any governmental body, agency or authority in connection with the delivery, installation, use and operation of the Collateral. The Borrower shall keep all of the Equipment in a satisfactory state of repair and satisfactory operating condition in accordance with industry standards, and will make all repairs and replacements when and where necessary and practical. The Borrower will not waste or destroy the Equipment or any part thereof, and will not be negligent in the care or use thereof. The Equipment shall not be annexed or affixed to or become part of any realty without the Lender's prior written consent.

5.9 FURTHER ASSURANCES. The Borrower will, promptly upon request by the Lender, execute and deliver or use its best efforts to obtain any document required by the Lender (including, without limitation, warehouseman or processor disclaimers, mortgage waivers, landlord disclaimers, or subordination agreements with respect to the Obligations and the Collateral), give any notices, execute and file any financing statements, mortgages or other documents (all in form and substance satisfactory to the Lender), mark any chattel paper, deliver any chattel paper or instruments to the Lender, and take any other actions that are necessary or, in the opinion of the Lender, desirable to perfect or continue the perfection and the first priority of the Lender's security interest in the Collateral, to protect the Collateral against the rights, claims, or interests of any Persons, or to effect the purposes of this Security Agreement. The Borrower hereby authorizes the Lender to file one or more financing or continuation statements, and amendments thereto, relating to all or any part of the Collateral without the signature of the Borrower where permitted by law. A carbon, photographic or other reproduction of this Security Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. To the extent required under this Security Agreement, the Borrower will pay all costs incurred in connection with any of the foregoing.

5.10 NO DISPOSITION OF COLLATERAL. The Borrower will not in any way hypothecate or create or permit to exist any lien, security interest, charge or encumbrance on or other interest in any of the Collateral, except for the lien and security interest granted hereby, the security interests of SVB and Permitted Liens which, in the case of SVB and Permitted Liens, are junior to the lien and security interest of the Lender and judgments which have been stayed, vacated, bonded, or discharged, and the Borrower will not sell, transfer, assign, pledge, collaterally assign, exchange or otherwise dispose of any Collateral. In the event the Collateral, or any part thereof, is sold, transferred, assigned, exchanged, or otherwise disposed of in violation of these provisions, the security interest of the Lender shall continue in such Collateral or part thereof notwithstanding such sale, transfer, assignment, exchange or other disposition, and the Borrower will hold the proceeds thereof in a separate account for the benefit of the Lender. Following such a sale, the Borrower will transfer such proceeds to the Lender in kind.

5.11 NO LIMITATION ON LENDER'S RIGHTS. The Borrower will not enter into any contractual obligations which may restrict or inhibit the Lender's rights or ability to sell or otherwise dispose of the Collateral or any part thereof.

5.12 PROTECTION OF COLLATERAL. Upon notice to the Borrower (provided that if no Event of Default has occurred and is continuing the Lender need not give any notice), the Lender shall have the right at any time to make any payments and do any other acts the Lender may deem necessary to protect its security interests in the Collateral, including, without limitation, the rights to satisfy, purchase, contest or compromise any encumbrance, charge or lien which, in the reasonable judgment of the Lender, appears to be prior to or superior to the security interests granted hereunder, and appear in and defend any action or proceeding purporting to affect its security interests in, or the value of, any of the Collateral. The Borrower hereby agrees to reimburse the Lender for all payments made and expenses incurred under this Security Agreement including fees, expenses and disbursements of attorneys and paralegals (including the allocated costs of in-house counsel) acting for the Lender, including any of the foregoing payments under, or acts taken to protect its security interests in, any of the Collateral, which amounts shall be secured under this Security Agreement, and agrees it shall be bound by any payment made or act taken by the Lender hereunder absent the Lender's gross negligence or willful misconduct. The Lender shall have no obligation to make any of the foregoing payments or perform any of the foregoing acts.

5.13 DELIVERY OF ITEMS. The Borrower will promptly (but in no event later than one Business Day) after its receipt thereof, deliver to the Lender any documents or certificates of title issued with respect to any property included in the Collateral, and any promissory notes, letters of credit or instruments related to or otherwise in connection with any property included in the Collateral, which in any such case come into the possession of the Borrower, or shall cause the issuer thereof to deliver any of the same directly to the Lender, in each case with any necessary endorsements in favor of the Lender.

5.14. SOLVENCY. The Borrower shall be and remain Solvent at all times.

5.15. FUNDAMENTAL CHANGES. Without prior written consent of the Lender, the Borrower shall not: (a) merge or consolidate into any other person unless (i) the Borrower is the survivor of such merger or consolidation and remains in compliance with all the terms and conditions of the Loan Documents or any other survivor of such merger of consolidation assumes all the Obligations, including without limitation, all of the Borrower's payment obligations, pursuant to assignment documentation acceptable to the Lender in its sole discretion, (ii) in the reasonable judgment of the Lender, the ability of such surviving entity to perform its obligations hereunder is no worse than that of the Borrower immediately before such merger or consolidation, and (iii) such surviving entity delivers Uniform Commercial Code financing statements (Form UCC-1) duly executed by the surviving entity (naming the Lender as secured party and the surviving entity as debtor and in form acceptable for filing in all jurisdictions that the Lender deems necessary or advisable to perfect the security interests granted to it hereunder) and, if applicable, termination statements, or other releases duly filed in all jurisdictions that the Lender deems necessary or advisable to perfect and protect the priority of the security interests granted by the Borrower hereunder), (b) amend or modify its name (unless the Borrower delivers to the Lender thirty days prior to any such proposed amendment or modification written notice of such proposal and within ten days following such amendment or modification delivers executed Uniform Commercial Code financing statements (in form and substance satisfactory to the Lender) reflecting such amendment or modification), or (c) sell or otherwise dispose of all or substantially all of its assets (unless the transferee complies with all requirements imposed on the surviving entity in subsection (a) of this Section 5.15).

5.16. ADDITIONAL REQUIREMENTS. The Borrower shall take all such further actions and execute all such further documents and instruments as the Lender may reasonably request.

6. FINANCIAL STATEMENTS. Until the payment and satisfaction in full of all Obligations, the Borrower shall deliver to the Lender the following financial information:

6.1. ANNUAL FINANCIAL STATEMENTS. As soon as available, but not later than 120 days after the end of each fiscal year of the Borrower and its consolidated subsidiaries, the consolidated balance sheet, income statement and statements of cash flows and shareholders equity for the Borrower

and its consolidated subsidiaries (the "Financial Statements") for such year, reported on by independent certified public accountants without an adverse qualification; and

6.2. QUARTERLY FINANCIAL STATEMENTS. As soon as available, but not later than 60 days after the end of each of the first three fiscal quarters in any fiscal year of the Borrower and its consolidated subsidiaries, the Financial Statements for such fiscal quarter, together with a certification duly executed by a responsible officer of the Borrower that such Financial Statements have been prepared in accordance with GAAP and are fairly stated in all material respects (subject to normal year-end audit adjustments).

7. EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an Event of Default hereunder:

(a) the Borrower shall fail to pay within five days of when due any amount required to be paid by the Borrower under or in connection with any Note and this Security Agreement;

(b) any representation or warranty made or deemed made by the Borrower under or in connection with any Loan Document or any Financial Statement shall prove to have been false or incorrect in any material respect when made;

(c) the Borrower shall fail to perform or observe (i) any of the terms, covenants or agreements contained in Section 5.4, 5.7, 5.10, 5.14 or 5.15 hereof or (ii) any other term, covenant or agreement contained in any Loan Document (other than the other Events of Default specified in this Section 7) and such failure remains unremedied for the later of thirty days from (A) the date on which the Lender has given the Borrower written notice of such failure and (B) the date on which the Borrower knew or should have known of such failure;

(d) any provision of any Loan Document to which the Borrower is a party shall for any reason cease to be valid and binding on the Borrower and the invalidity of such provision may, in the sole opinion of the Lender having Material Adverse Effect on the Borrower, or the Borrower shall state that any provision of any Loan Document to which it is a party is no valid of binding on the Borrower;

(e) dissolution, liquidation, winding up or cessation of the Borrower's business, or the failure of the Borrower generally to pay its debts as they mature; or the admission in writing by the Borrower of its inability generally to pay its debts as they mature; or the calling of a meeting of the Borrower's creditors for purposes of compromising any of the Borrower's debts;

(f) the commencement by or against the Borrower of any bankruptcy, insolvency, arrangement, reorganization, receivership or similar proceedings under any federal or state law and, in the case of any such involuntary proceeding, such proceeding remains undismissed or unstayed for forty-five days following the commencement thereof, or any action by the Borrower is taken authorizing any such proceedings;

(g) an assignment for the benefit of creditors is made by the Borrower, whether voluntary or involuntary, or the appointment of a trustee, custodian, receiver or similar official for the Borrower or for any substantial property of the Borrower; or any action by the Borrower authorizing any such proceeding;

(h) the Borrower shall (i) default in the payment of principal or interest on any indebtedness in excess of \$50,000 (other than the Obligations) beyond the period of grace, if any, provided in the instrument or agreement under which such indebtedness was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such indebtedness or contained in any instrument or agreement relating thereto, or any other event shall occur or condition

exist, the effect of which default or other event or condition is to cause, or to permit the holder of such indebtedness to cause, with the giving of notice if required, such indebtedness to become due prior to its stated maturity;

(i) the Borrower suffers or sustains a Material Adverse Change;

(j) any tax lien, other than a Permitted Lien, is filed of record against the Borrower and is not bonded or discharged within twenty Business Days;

(k) any judgment which has had or could reasonably be expected to have a material Adverse Effect on the Borrower and such judgment shall not be stayed, vacated, bonded or discharged within sixty days; or

(l) any material covenant, agreement or obligation, as determined in the sole discretion of the Lender, made by the Borrower and contained in or evidenced by any of the Loan Documents shall cease to be enforceable, or shall be determined to be unenforceable, in accordance with its terms; the Borrower shall deny or disaffirm the Obligations under any of the Loan Documents or any liens granted in connection therewith; or any liens granted on any of the Collateral in favor of the Lender shall be determined to be void, voidable or invalid, or are not given the priority contemplated by this Security Agreement.

8. REMEDIES. If any Event of Default shall have occurred and be continuing:

(a) The Lender may, without prejudice to any of its other rights under any Loan Document or Applicable Law, declare all Obligations to be immediately due and payable (except with respect to any Event of Default set forth in Section 7(f) hereof, in which case all Obligations shall automatically become immediately due and payable without necessity of any declaration) without presentment, representation, demand of payment or protest, which are hereby expressly waived.

(b) The Lender may take possession of the Collateral and, for that purpose may enter, with the aid and assistance of any person or persons, any premises where the Collateral or any part hereof is, or may be placed, and remove the same. The Lender agrees that prior to the disposition of any Equipment the Borrower shall have a reasonable time, as determined solely by the Lender, to remove software or information (so long as such software or information does not constitute Collateral) stored on such Equipment. If the Borrower fails to take such action in the time allotted by the Lender, in its sole discretion, the Lender, either directly or through third parties and in any case at the expense of the Borrower, may undertake such removal action. This paragraph shall not limit in any manner the Lender's rights hereunder or under Applicable Law to take possession of any Collateral, including, without limitation, the Equipment.

(c) The obligation of the Lender, if any, to make additional Loans or financial accommodations of any kind to the Borrower shall immediately terminate.

(d) The Lender may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein (or in any Loan Document) or otherwise available to it, all the rights and remedies of a secured party under the applicable Uniform Commercial Code (the "Code") whether or not the Code applies to the affected Collateral and also may (i) require the Borrower to, and the Borrower hereby agrees that it will at its expense and upon request of the Lender forthwith, assemble all or part of the Collateral as directed by the Lender and make it available to the Lender at a place to be designated by the Lender that is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Lender's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Lender may deem commercially reasonable. The Borrower agrees that, to the extent notice of sale shall be

required by law, at least ten days' notice to the Borrower of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Lender shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Lender may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it is adjourned.

(e) All cash proceeds received by the Lender in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Lender, be held by the Lender as collateral for, or then or at any time thereafter applied in whole or in part by the Lender against, all or any part of the Obligations in such order as the Lender shall elect. Any surplus of such cash or cash proceeds held by the Lender and remaining after the full and final payment of all the Obligations shall be paid over to the Borrower or to such other Person to which the Lender may be required under applicable law, or directed by a court of competent jurisdiction, to make payment of such surplus.

9. MISCELLANEOUS PROVISIONS.

9.1 CONFIDENTIALITY. The Lender agrees to hold in confidence any confidential information it receives from the Borrower pursuant hereto, except for disclosure; (a) to legal counsel, accountants or any other agent of the Lender or any assignee; (b) to regulatory officials having jurisdiction over the Lender or any assignee; (d) as required by law or legal process or in connection with any legal or administrative proceeding to which the Lender (or any assignee) and the Borrower are adverse parties; and (e) in connection with a disposition or proposed disposition in any or all of the Lender's (or any assignee's) rights and benefits hereunder. For purposes of this section, "confidential information" shall mean any information respecting the Borrower and Person for whom Borrower has received information which is a trade secret and is proprietary to the Borrower and shall not include, without limitation, (x) information which is or becomes general available to the public other than a result of a disclosure by the Lender or any assignee in violation of this section; (y) information which becomes available to the Lender or any assignee from any other source (other than the Borrower) which is not known by the Lender or such assignee to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligations or confidentiality to the Borrower with respect to the information made available; and (z) information known by the Lender or any assignee on a non-confidential basis prior to its disclosure to the Lender or the assignee by the Borrower. In no event the Lender be obligated or required to return any materials furnished to it by the Borrower.

9.2 NOTICES. Except as otherwise provided herein, all notices, approvals, consents, correspondence or other communications required or desired to be given hereunder shall be given in writing and shall be delivered by overnight courier, hand delivery or certified or registered mail, postage prepaid, if to the Lender, then to Technology Finance Division 76 Batterson Park Road, Farmington, Connecticut 06032, Attention: Assistant Vice President, Lease Administration, with a copy to the Lender at Riverway II, West Office Tower, 9399 West Higgins Road, Rosemont, Illinois 60018, Attention: Legal Department or such other address as shall be designated by the Lender to the Borrower in accordance herewith, and if to the Borrower, then to Abaxis, Inc., 1320 Chesapeake Terrace, Sunnyvale, CA 94089, Attention: Ms. Ting Lu, Chief Financial Officer, or such other address as shall be designated by the Borrower to the Lender in accordance herewith. All such notices and correspondence shall be effective when received.

9.3 HEADINGS. The headings in the Security Agreement are for purposes of reference only and shall not affect the meaning or construction of any provision of this Security Agreement.

9.4 ASSIGNMENTS. The Borrower shall not have the right to assign any Note or this Security Agreement or any interest therein unless the Lender shall have given the Borrower prior written

consent and the Borrower and its assignee shall have delivered assignment documentation in form and substance satisfactory to the Lender in its sole discretion. The Lender may assign its rights and delegate its obligations under any Note or this Security Agreement.

9.5 AMENDMENTS, WAIVERS AND CONSENTS. Any amendment or waiver of any provision of this Security Agreement and any consent to any departure by the Borrower from any provision of this Security Agreement shall be effective only by a writing signed by the Lender and shall bind and benefit the Borrower and the Lender and their respective successors and assigns, subject, in the case of the Borrower, to the first sentence of Section 9.4.

9.6 INTERPRETATION OF AGREEMENT. Time is of the essence in each provision of this Security Agreement of which time is an element. All terms not defined herein or in a Note shall have the meaning set forth in the applicable Code, except where the context otherwise requires. To the extent a term of provision of this Security Agreement conflicts with any Note, or any term or provision thereof, and is not dealt with herein with more specificity, this Security Agreement shall control with respect to the subject matter of such term or provision. Acceptance of or acquiescence is a course or performance rendered under this Security Agreement shall not be relevant in determining the meaning of this Security Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

9.7 CONTINUING SECURITY INTEREST. This Security Agreement shall create a continuing security interest in the Collateral and shall (i) remain in full force and effect until the indefeasible payment in full of the Obligations, (ii) be binding upon the Borrower and its successors and assigns and (iii) insure, together with the rights and remedies of the Lender hereunder, to the benefit of the Lender and its successors, transferees and assigns.

9.8 REINSTATEMENT. To the extent permitted by law, this Security Agreement and the rights and powers granted to the Lender hereunder and under the Loan Documents shall continue to be effective or be reinstated if at any time any amount received by the Lender in respect of the Obligations is rescinded or must otherwise be restored or returned by the Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or upon the appointment of any receiver, intervenor, conservator, trustee or similar official for the Borrower or any substantial part of its assets, or otherwise, all as though such payments had not been made.

9.9 SURVIVAL OF PROVISIONS. All representations, warranties and covenants of the Borrower contained herein shall survive the execution and delivery of this Security Agreement, and shall terminate only upon the full and final payment and performance by the Borrower of the Obligations secured hereby.

9.10 INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Lender and its directors, officers, agents, employees and counsel from and against any and all costs, expenses, claims, or liability incurred by the Lender or such person hereunder and under any other Loan Document or in connection herewith or therewith, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of the Lender or such Person.

9.11. COUNTERPARTS; TELECOPIED SIGNATURES. This Security Agreement may be executed in counterparts, each of which when so executed and delivered shall be an original, but both of which shall together constitute one and the same instrument. This Security Agreement and each of the other Loan Documents and any notices given in connection herewith or therewith may be executed and delivered by telecopier or other facsimile transmission all with the same effect as of the same was fully executed and delivered original manual counterpart.

9.12. SEVERABILITY. In case any provision in or obligation under this Security Agreement or any Note or any other Loan Document shall be invalid, illegal or unenforceable in any

jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

9.13. DELAYS; PARTIAL EXERCISE OF REMEDIES. No delay or omission of the Lender to exercise any right or remedy hereunder, whether before or after the happening of any Event of Default, shall impair any such right or shall operate as a waiver thereof or as a waiver of any such Event of Default. No single or partial exercise by the Lender of any right or remedy shall preclude any other or further exercise thereof, or preclude any other right or remedy.

9.14. ENTIRE AGREEMENT. The Borrower and the Lender agree that this Security Agreement, the Schedule hereto, and the Lender's written commitment to the Borrower and the Commitment Letter between the Lender and the Borrower dated as of February 25, 1997, as amended, supplemented or otherwise modified from time to time, are the complete and exclusive statements between the parties with respect to the subject matter hereof, superseding all proposals and prior agreements, oral or written, and all other communications between the parties with respect to the subject matter hereof and constitute the entire agreement between the parties.

9.15. SETOFF. In addition to and not in limitation of all rights of offset that the Lender may have under Applicable Law, and whether or not the Lender has made any demand or the Obligations of the Borrower have matured, the Lender shall have the right to appropriate and apply to the payment of the Obligations of the Borrower all deposits and other obligations then or thereafter owing by the Lender to or for the credit or the account of the Borrower.

9.16. WAIVER OF JURY TRIAL. THE BORROWER AND THE LENDER IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS SECURITY AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

9.17. GOVERNING LAW. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS SECURITY AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS WITHOUT GIVING EFFECT TO THE CONFLICT OF LAW PRINCIPLES THEREOF.

9.18 VENUE; SERVICE OF PROCESS. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS SECURITY AGREEMENT OR ANY OTHER LOAN DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF ILLINOIS SITUATED IN COOK COUNTY, OR OF THE UNITED STATES OF AMERICA FOR THE NORTHERN DISTRICT OF ILLINOIS, AND, BY EXECUTION AND DELIVERY OF THIS SECURITY AGREEMENT, THE BORROWER HEREBY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS. THE BORROWER HEREBY IRREVOCABLY WAIVES, IN CONNECTION WITH ANY SUCH ACTION OR PROCEEDING, (a) ANY OBJECTION, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, THAT IT MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS AND (b) THE RIGHT TO INTERPOSE ANY NONCOMPULSORY SETOFF, COUNTERCLAIM OR CROSS-CLAIM. THE BORROWER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER AT THE ADDRESS FOR IT SPECIFIED IN SECTION 9.2 HEREOF. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE LENDER TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE

PROCEED AGAINST THE BORROWER IN ANY OTHER JURISDICTION, SUBJECT IN EACH INSTANCE TO THE PROVISIONS HEREOF WITH RESPECT TO RIGHTS AND REMEDIES.

IN WITNESS WHEREOF, the undersigned Borrower has caused this Security Agreement to be duly executed and delivered by its proper and duly authorized officer as of the date first set forth above.

ABAXIS, INC.

By: /S/Ting Lu

Name: Ting W. Lu
Title: VP Finance & Admin. & CFO
Federal Tax ID Number: 77-0213001

Accepted as of 4/30/97

TRANSAMERICA BUSINESS CREDIT
CORPORATION

By: /S/Gary O. Moro

Name: Gary P. Moro
Title: Vice President

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SUBSIDIARIES OF THE REGISTRANT

None

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CONSENT OF DELOITTE & TOUCHE LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in Registration Statements Nos. 33-49758, 33-85744 and 333-07541 of Abaxis, Inc. on Form S-8 of our report dated April 22, 1997, appearing in this Annual Report on Form 10-K of Abaxis, Inc. for the year ended March 31, 1997.

DELOITTE & TOUCHE LLP

San Jose, California
June 27, 1997

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CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-49758) pertaining to the 1989 Stock Option Plan, the Outside Directors Stock Option Plan and the Individual Written Compensation Agreement and the Registration Statements (Form S-8 Nos. 33-85744 and 333-07541) pertaining to the 1989 Stock Option Plan of our report dated April 21, 1995, with respect to the financial statements of Abaxis, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 1997.

ERNST & YOUNG LLP

San Jose, California
June 27, 1997

71

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED STATEMENT OF OPERATIONS AND CONDENSED BALANCE SHEET AND IS QUALIFIED IN ITS ENTIRETY TO SUCH COMPANY'S YEARLY REPORT ON FORM 10-K FOR THE YEAR ENDED MARCH 30, 1997.

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