SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 30, 2002 or

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

FOR THE TRANSITION PERIOD FROM _____ TO _____

Commission file number 000-19720

ABAXIS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

At November 11, 2002, 16,794,816 shares of common stock, no par value, were outstanding.

This Report on Form 10-Q consists of 37 pages. The exhibit index is on page 27.

ABAXIS, INC.
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Quarter Ended September 30, 2002
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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Revenues:				
Product sales, net	$ 8,619,000	$ 6,719,000	$ 16,000,000	$ 14,281,000
Development and licensing revenue	81,000	65,000	116,000	100,000
Total revenues	8,700,000	6,784,000	16,116,000	14,381,000
Costs and operating expenses:				
Cost of product sales	4,653,000	3,643,000	8,372,000	7,717,000
Selling, general, and administrative	3,030,000	2,148,000	5,416,000	4,519,000
Research and development	935,000	949,000	1,940,000	1,844,000
Total costs and operating expenses	8,618,000	6,740,000	15,728,000	14,080,000
Income from operations	82,000	44,000	388,000	301,000
Interest income	57,000	30,000	120,000	52,000
Interest expense	(35,000)	(70,000)	(89,000)	(128,000)
Income before income taxes	104,000	4,000	419,000	225,000
Income tax provision	3,000	--	13,000	4,000
Net income	101,000	4,000	406,000	221,000
Preferred dividends and accretion (a)	(232,000)	(116,000)	(827,000)	(216,000)
Net income (loss) attributable to common shareholders	$ (131,000)	$ (112,000)	$ (421,000)	$ 5,000
Basic and diluted net income (loss) per share	$ (0.01)	$ (0.01)	$ (0.03)	$ 0.00
Weighted average number of common shares outstanding used in calculating basic net income (loss) per share	16,534,000	16,241,000	16,463,000	16,200,000
Weighted average number of shares outstanding used in calculating diluted net income (loss) per share	16,534,000	16,241,000	16,463,000	16,743,000

(a) For the three months ended September 30, 2002, includes cash dividends of $232,000. For the six months ended September 30, 2002, includes cash dividends of $457,000 and a non-cash dividend charge of $370,000 related to the beneficial conversion feature contained in the Company's Series E Preferred Stock issued in April 2002. For the three and six months ended September 30, 2001, includes stock dividends of $116,000 and $216,000, respectively. See note 3.

See notes to condensed financial statements.

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

	September 30, 2002	March 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,631,000	$ 4,098,000
Stock offering proceeds receivable	--	3,446,000
Trade receivables (net of allowances of $248,000 at September 30, 2002 and $244,000 at March 31, 2002)	7,010,000	6,924,000
Inventories	5,762,000	5,558,000
Prepaid expenses	180,000	476,000
Total current assets	23,583,000	20,502,000
Property and equipment - net	8,968,000	9,071,000
Deposits and other assets	279,000	107,000
Total assets	$ 32,830,000	$ 29,680,000
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit	$ 1,000,000	$ 2,000,000
Accounts payable	2,551,000	1,914,000
Dividends payable	457,000	230,000
Accrued payroll and related expenses	1,286,000	1,440,000
Other accrued liabilities	435,000	497,000
Warranty reserve	178,000	192,000
Deferred revenue	395,000	383,000
Current portion of capital lease obligations	72,000	97,000
Current portion of long-term debt	467,000	467,000
Total current liabilities	6,841,000	7,220,000
Deferred rent	263,000	198,000
Deferred revenue, less current portion	359,000	417,000
Capital lease obligations, less current portion	65,000	103,000
Long-term debt, less current portion	700,000	933,000
Commission obligation, less current portion	82,000	96,000
Total non-current liabilities	1,469,000	1,747,000
Commitments and contingencies		
Convertible preferred stock, no par value: outstanding shares - 5,570 at September 30, 2002 and 3,750 at March 31, 2002 (liquidation preference of $5,570,000 at September 30, 2002 and $3,750,000 at March 31, 2002)	3,176,000	2,561,000
Shareholders' equity:		
Convertible preferred stock, no par value: authorized shares - 5,000,000; issued and outstanding shares - 6,508 at September 30, 2002 and 6,558 at March 31, 2002	3,143,000	3,193,000
Common stock, no par value: authorized shares - 35,000,000; issued and outstanding shares - 16,784,231 at September 30, 2002; issued and outstanding shares - 16,339,735 at March 31, 2002	80,506,000	76,843,000
Accumulated deficit	(62,305,000)	(61,884,000)
Total shareholders' equity	21,344,000	18,152,000
Total liabilities, convertible preferred stock and shareholders' equity	$ 32,830,000	$ 29,680,000

See notes to condensed financial statements.

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

	Six Months Ended September 30,	
	2002	**2001**
Operating activities:		
Net income	$ 406,000	$ 221,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	773,000	915,000
Stock compensation (reversal), including amortization of deferred stock compensation	(22,000)	5,000
Changes in assets and liabilities:		
Trade receivables	(86,000)	1,187,000
Inventories	(204,000)	753,000
Prepaid expenses	296,000	(676,000)
Deposits and other assets	(172,000)	212,000
Accounts payable	637,000	(1,582,000)
Accrued payroll and related expenses	(18,000)	(161,000)
Warranty reserve and other accrued liabilities	(76,000)	130,000
Deferred rent	65,000	--
Deferred revenue	(46,000)	22,000
Long-term commission obligations	(14,000)	(65,000)
Income taxes payable	--	2,000
Net cash provided by operating activities	1,539,000	963,000
Investing activities:		
Purchase of property and equipment	(670,000)	(416,000)
Net cash used in investing activities	(670,000)	(416,000)
Financing activities:		
Repayment of line of credit	(1,000,000)	--
Repayment of equipment financing	(233,000)	(335,000)
Repayment of capital lease obligations	(63,000)	(50,000)
Net cash proceeds from issuance of preferred stock	6,812,000	--
Exercise of warrants and common stock options	148,000	289,000
Net cash provided by (used in) financing activities	5,664,000	(96,000)
Net increase in cash and cash equivalents	6,533,000	451,000
Cash and cash equivalents at beginning of period	4,098,000	2,012,000
Cash and cash equivalents at end of period	$ 10,631,000	$ 2,463,000
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of interest capitalized	$ 81,000	$ 123,000
Noncash financing activities:		
Preferred stock dividends and accretion	$ 827,000	$ 216,000
Issuance of common stock for conversion of preferred stock and payment of dividends payable	$ 2,080,000	$ --
Warrants issued for services and issuance costs	$ 361,000	$ --
Common stock issued for employees benefits plans	$ 137,000	$ --

See notes to condensed financial statements.

1. BASIS OF PRESENTATION

The condensed unaudited financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2002. The unaudited condensed financial statements included herein reflect all normal recurring adjustments, which are, in the opinion of management, necessary to state fairly the results of operations and financial position for the periods presented. Certain amounts as presented in the financial statements for the previous periods have been reclassified to conform to the fiscal year 2003 financial statement presentation. The results for the period ended September 30, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2003 or for any future period.

2. SIGNIFICANT ACCOUNTING POLICIES

Comprehensive Income - Comprehensive income was the same as net income for the three and six months ended September 30, 2002 and 2001.

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

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

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

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

3. NET INCOME (LOSS) PER SHARE INFORMATION

Basic net income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding and the net income (loss) attributable to common shareholders. Diluted net income (loss) per share is computed by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares that would have been outstanding during the period assuming the issuance of common shares for all potential dilutive common shares outstanding. Shares used in the calculation of diluted net income (loss) per share for the three and six months ended September 30, 2002 exclude an aggregate of 4,054,252 and 4,117,513 common equivalent shares, respectively, and for the three and six months ended September 30, 2001 exclude an aggregate of 4,326,782 and 2,555,555 common equivalent shares, respectively, related to outstanding options and warrants, using the treasury stock method and related to preferred shares issuable upon conversion of preferred stock, as their effect would be antidilutive.

In conjunction with the issuance of 3,620 shares of Series E convertible preferred stock at $1,000 per share in April

2002, each investor received a warrant to purchase 50 shares of common stock for each preferred share acquired. The common stock warrants are exercisable at $7.00. The portion of proceeds attributable to the value of such warrants of $590,000, determined using the Black-Scholes option-pricing model, and a corresponding charge reflecting the value of the embedded beneficial conversion feature was allocated to common stock. During the three and six months ended September 30, 2002, the Company recorded dividend charges related to the accretion of the beneficial conversion feature of $370,000 and accrued dividends payable of $457,000. The loss attributable to common shareholders for the three and six months ended September 30, 2001 also includes accrued dividends payable of $116,000 and $216,000, respectively, to preferred shareholders.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Weighted average number of common shares outstanding used in calculating basic net income (loss) per share	16,534,000	16,241,000	16,463,000	16,200,000
Weighted average number of dilutive stock options outstanding using the treasury stock method	--	--	--	543,000
Weighted average number of shares outstanding used in calculating diluted net income (loss) per share	16,534,000	16,241,000	16,463,000	16,743,000

4. INVENTORY

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

	September 30, 2002	March 31, 2002
Raw materials	$ 2,930,000	$ 2,289,000
Work-in-process	1,730,000	1,580,000
Finished goods	1,102,000	1,689,000
	$ 5,762,000	$ 5,558,000

5. LINE OF CREDIT AND LONG-TERM DEBT

In March 2002, the Company terminated certain line of credit and equipment financing loans and entered into new line of credit and equipment financing loans with Comerica Bank-California. The new line of credit provides for borrowings of up to $5,250,000, based on the Company's outstanding accounts receivables and inventory, as defined by the bank: up to $4,000,000 is collateralized by domestic receivables and up to $1,250,000 is collateralized by foreign receivables. This new line of credit bears interest at the prime rate, which was 4.75% at September 30, 2002, and is payable monthly. Of the $4,000,000 domestic line of credit, $820,000 was committed to secure a letter of credit for the Company's facilities lease. The domestic line of credit terminates upon notification by either party and the outstanding balance is payable upon demand. The foreign line of credit expired in September 2002 and was renewed until September 2003. The Company's weighted average interest rate on borrowings under its line of credit facilities during the three months ended September 30, 2002 and 2001 was 4.75% and 7.43%, respectively. The Company paid down $1,000,000 of its domestic line of credit during the three and six months ended September 30, 2002. At September 30, 2002, the amount outstanding under the Company's line of credit, which consists of both domestic and foreign borrowings, was $1,000,000 and $2,062,000 was available for additional borrowings. In October 2002, the Company paid down the $1,000,000 remaining balance of its domestic line of credit.

The balance of the new equipment financing loan at September 30, 2002 was $1,167,000. The equipment loan bears interest at the prime rate plus 1%, which was 5.75% at September 30, 2002, and is payable in monthly installments of principal and interest totaling approximately $42,000 over a period of three years. The weighted average interest rate on equipment financing loans during the three months ended September 30, 2002 and 2001 was 5.75% and 7.93%, respectively.

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

Borrowings under the line of credit and equipment financing loans are secured by a pledge of the Company's net book value of assets of $24.5 million at September 30, 2002 including its intellectual property.

6. CUSTOMER AND GEOGRAPHIC INFORMATION

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
Blood chemistry analyzers	$ 2,572,000	$ 2,062,000	$ 4,570,000	$ 4,915,000
Reagent discs and kits	5,416,000	4,237,000	10,262,000	8,602,000
Other	631,000	420,000	1,168,000	764,000
Product sales, net	8,619,000	6,719,000	16,000,000	14,281,000
Development and licensing revenue	81,000	65,000	116,000	100,000
Total revenues	$ 8,700,000	$ 6,784,000	$ 16,116,000	$ 14,381,000

Two distributors, Vedco Inc. and DVM Resources accounted for 35% and 11%, respectively, of total revenues for the three-month period ended September 30, 2002, and 48% and 5%, respectively, of total revenues for the three-month period ended September 30, 2001. Vedco Inc. and DVM Resources accounted for 36% and 9%, respectively, of total revenues for the six-month period ended September 30, 2002, and 47% and 6%, respectively, of total revenues for the six-month period ended September 30, 2001. The following is a summary of revenues by geographic region based on customer location (rounded in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2002	2001	2002	2001
United States	$ 7,484,000	$ 5,911,000	$ 13,777,000	$ 12,673,000
Europe	989,000	595,000	1,797,000	1,117,000
Asia and Latin America	227,000	278,000	542,000	591,000
Total	$ 8,700,000	$ 6,784,000	$ 16,116,000	$ 14,381,000

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

7. CONVERTIBLE PREFERRED STOCK

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

Series E Preferred are entitled to receive $1,000 per share, the original issue price, plus any accrued but unpaid dividends, as a liquidation preference prior to Abaxis making any distributions to holders of common stock.

During the three months ended September 30, 2002, certain holders of Series E Preferred converted 1,800 shares into 276,922 shares of common stock. The remaining shares of Series E Preferred automatically converts into 856,924 shares of common stock upon the earlier of: (i) the first date following March 28, 2003 on which the closing per share price of Abaxis common stock exceeds $12.00 for twenty consecutive trading days (the "Automatic Price Conversion Date"), or (ii) March 28, 2007; provided, however, that if the closing sales price of the common stock as reported on Nasdaq National Market System is less than $6.50 for each of the twenty (20) consecutive trading days immediately prior to and including March 28, 2007, then the Series E preferred stock will convert into common stock automatically upon the earlier to occur of (A) March 28, 2008, or (B) the Automatic Price Conversion Date. The shares may also be converted at the option of the holder at any time. The number of common shares into which the Series E convertible preferred stock is convertible is subject to adjustment for anti-dilution, stock splits, and other certain events.

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

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

The amounts recorded in the Company's financial statements for the three and six months ended September 30, 2002, representing the amounts attributed to the closings in April 2002, were as follows: net cash proceeds - $3,366,000 ($254,000 of issuance costs incurred), allocation to warrants issued to investors - $590,000, warrants issued to advisors for services - $361,000, and the amount of the dividend charge related to the value of beneficial conversion feature - $370,000.

8. LITIGATION

On March 28, 2002, Idexx Laboratories, Inc., the Company's principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for the Company by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringes on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In addition to claiming unspecified monetary damages, Idexx requested that the Court issue a preliminary injunction to prevent Abaxis and S.A. Scientific, Inc. from making, using, selling, offering to sell in the United States or importing into the United States the canine heartworm test until a trial on the merits of the claim is completed. The Company has incurred and will continue to incur expenses in the defense of such claims. For the three and six months ended September 30, 2002, revenues from sales of canine heartworm test were $224,000 and $467,000, respectively. On September 3, 2002, the United States District Court of Maine granted a preliminary injunction in favor of Idexx, under which the Company cannot, pending the resolution of patent litigation by Idexx against the Company, make, use, sell, offer to sell or import the enjoined version of the VetScan Canine Heartworm Antigen Test manufactured by S.A. Scientific, Inc. of San Antonio, Texas in the United States. This injunction will adversely affect the Company's revenues. The Company has filed an appeal of the Court's preliminary injunction to the Court of Appeals for the Federal Circuit.

Although the parties are currently engaged in pre-trial motions and depositions, the parties have entered into negotiations to begin mediation and potentially reach a settlement of the Idexx claims. If a settlement is not reached, management intends to defend the Company vigorously. On May 8, 2002, the Company entered into an agreement with S.A. Scientific, Inc. under which the two parties agreed to joint representation by counsel to defend the legal

action filed by Idexx. The Company's portion of legal and related costs to defend the legal action filed by Idexx were $505,000 and $729,000, for the three and six months ended September 30, 2002, respectively.

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

Overview

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

Abaxis, Inc. ("us" or "we"), incorporated in California in 1989, develops, manufactures and markets portable blood analysis systems for use in any patient-care setting to provide clinicians with rapid blood constituent measurements. Our primary product is a system consisting of a compact 6.9 kilogram analyzer and a series of single-use plastic discs, called reagent discs, containing all the chemicals required to perform a panel of up to 12 tests. The system can be operated with minimal training and performs multiple routine tests on whole blood, serum or plasma using either venous or fingerstick samples. The system provides test results in less than 15 minutes with the precision and accuracy equivalent to a clinical laboratory analyzer. We currently market this system for veterinary use under the name VetScan and in the human medical market under the name Piccolo®. We also market a hematology analyzer under the name Vetscan HMT, which provides a complete blood count ("CBC") including three-part white blood cell ("WBC") differential in less than 2 minutes and requires only 12 μ L of whole blood. It provides results for eight selectable species, plus two user configurable programs. We market one type of reagent kit with this analyzer. We market the combination of the VetScan and the VetScan HMT under the name VetScan DXS.

In the three months ended September 30, 2002, our domestic revenues accounted for 86% of our total revenues versus 87% in the three months ended September 30, 2001. In the six months ended September 30, 2002, the Company's domestic revenues accounted for 85% of total revenues versus 88% in the six months ended September 30, 2001. International revenues accounted for 14% of total revenues in the three months ended September 30, 2002 versus 13% in the three months ended September 30, 2001. In the six months ended September 30, 2002, international revenues accounted for 15% of total revenues versus 12% in the six months ended September 30, 2001. The reason for the decrease in domestic revenues and commensurate increase in international revenues as a percentage of total revenues was due primarily to our strategy to expand European markets.

During the three months ended September 30, 2002, we sold 311 instruments worldwide, which includes both blood chemistry and hematology analyzers, a 16% increase from 267 instruments sold in the three months ended September 30, 2001. During the six months ended September 30, 2002, we shipped 546 instruments worldwide, a 12% decrease from 621 instruments sold in the six months ended September 30, 2001. The decrease in instrument sales reflects lower unit shipments primarily in the United States. Our goal is to increase instrument sales in future periods by allocating additional resources to product selling and marketing, which includes a substantial increase in our sales force and incentive programs to retain highly skilled sales professionals.

Reagent discs and kits sold during the three months ended September 30, 2002 were approximately 452,000, an increase of 28% compared to shipments of approximately 353,000 reagent discs and kits during the three months ended September 30, 2001. Reagent discs and kits sold during the six months ended September 30, 2002 were approximately 864,000, an increase of 17% compared to shipments of approximately 741,000 reagent discs and kits during the six months ended September 30, 2001. The increase in reagent disc and kits sold is consistent with our belief that there will be increasing recurring reagent disc revenue as our product lines achieve greater market penetration and more consistent utilization. This growth is mainly attributable to the expanded installed base of

VetScan DXS systems and higher consumption rates of institutional users.

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

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

We introduced our VetScan Canine Heartworm Antigen Test in December 2001. The test is a stand-alone lateral flow device similar in format to simple pregnancy tests. Results are available in a maximum of 10 minutes. We purchased the Vetscan Canine Heartworm Antigen Test from S.A. Scientific, Inc., of San Antonio, Texas, a privately-held leader in the development and manufacturing of a wide-range of one-step rapid tests for various diseases. The addition of the VetScan Canine Heartworm Antigen Test expanded our product lines in the veterinary market. However, in March 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary market, filed a patent infringement lawsuit against both S.A. Scientific and us. On September 3, 2002, the United States Federal District Court for the District of Maine granted Idexx a preliminary injunction under which we may not sell the S.A. Scientific canine heartworm antigen test pending the outcome of the litigation. However, we plan to continue to develop and introduce various rapid antigen tests, including another canine heartworm antigen test if necessary, to expand our veterinary market in the future.

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

Results of Operations

Total Revenues

During the three months ended September 30, 2002, we reported total revenues of $8,700,000, a $1,916,000 or 28% increase from total revenues of $6,784,000 for the three months ended September 30, 2001. The revenue increase was due to an increase of $510,000 in instrument sales, an increase of $1,179,000 in reagent sales and an increase of $227,000 in other sales most of which was due to sales from the canine heartworm tests. Our instrument and reagent sales accounted for 30% and 63%, respectively, of our product sales in the three months ended September 30, 2002 compared to 31% and 63%, respectively, of our product sales in the three months ended September 30, 2001. During the six months ended September 30, 2002, we reported total revenues of $16,116,000, a $1,735,000 or 12% increase from total revenues of $14,381,000 for the six months ended September 30, 2001. Our instrument and reagent sales accounted for 29% and 64%, respectively, of our product sales in the six months ended September 30, 2002 compared to 34% and 60%, respectively, of our product sales in the six months ended September 30, 2001.

During the three months ended September 30, 2002, we reported development and licensing revenues of $81,000, a $16,000 or 25% increase from development and licensing revenues of $65,000 for the three months ended September 30, 2001. During the six months ended September 30, 2002, we reported development and licensing revenues of $116,000, a $16,000 or 16% increase from development and licensing revenues of $100,000 for the six months ended September 30, 2001. The fluctuations in development and licensing revenue are due to changes in our customers' use of our Orbos technology.

Total revenues in the U.S. for the three months ended September 30, 2002 were $7,484,000, a $1,573,000 or 27% increase from total U.S. revenues of $5,911,000 for the three months ended September 30, 2001. Total revenues in the U.S. for the six months ended September 30, 2002 were $13,777,000, a $1,104,000 or 9% increase from total

U.S. revenues of $12,673,000 for the six months ended September 30, 2001.

Total revenues in Europe for the three months ended September 30, 2002 were $989,000, a $394,000 or 66% increase from revenues of $595,000 for the three months ended September 30, 2001. Total revenues in Europe for the six months ended September 30, 2002 were $1,797,000, a $680,000 or 61% increase from revenues of $1,117,000 for the six months ended September 30, 2001. The increase in revenues reflects both an increase in instrument sales of approximately $273,000 and reagent sales of approximately $407,000.

Total revenues in Asia and Latin America for the three months ended September 30, 2002 were $227,000, a $51,000 or 18% decrease from revenues of $278,000 for the three months ended September 30, 2001. Total revenues in Asia and Latin America for the six months ended September 30, 2002 were $542,000, a $49,000 or 8% decrease from revenues of $591,000 for the six months ended September 30, 2001. The slight decrease in revenues in Asia and Latin America reflects a decrease in reagent sales of approximately $12,000 and a decrease in instrument sales of $37,000.

Cost of Product Sales

Cost of product sales during the three months ended September 30, 2002 was $4,653,000, or 54% of product sales, as compared to $3,643,000, or 54% of product sales, in the three months ended September 30, 2001. Cost of product sales during the six months ended September 30, 2002 was $8,372,000, or 52% of product sales, as compared to $7,717,000, or 54% of product sales, in the six months ended September 30, 2001. The increase in cost of product sales as a percent of revenue was primarily attributable to continued increases in sales volume of instruments and reagent discs.

Selling, General and Administrative Expense

Selling, general and administrative expenses were $3,030,000, or 35% of total revenues, in the three months ended September 30, 2002 compared to $2,148,000, or 32% of total revenues, in the three months ended September 30, 2001. The increase in selling, general and administrative expenses was due primarily to an increase in legal fees and related costs incurred to defend legal action filed by Idexx Laboratories, Inc. Selling, general and administrative expenses were $5,416,000, or 34% of total revenues, in the six months ended September 30, 2002 compared to $4,519,000, or 31% of total revenues, in the six months ended September 30, 2001. We expect the dollar amount of selling, general and administrative expenses to increase due to the Idexx claims. However, excluding the expenses related to the Idexx claims, we expect selling, general and administrative expenses to slightly increase due to our strategy to expand in the human medical market.

Research and Development Expense

Research and development expenses were $935,000, or 11% of total revenues, in the three months ended September 30, 2002, compared to $949,000, or 14% of total revenues, in the three months ended September 30, 2001. Research and development expenses were $1,940,000, or 12% of total revenues, in the six months ended September 30, 2002, compared to $1,844,000, or 13% of total revenues, in the six months ended September 30, 2001. We expect the dollar amount of research and development expenses to increase in the fiscal year ending March 31, 2003 as compared to fiscal year ended March 31, 2002 and slightly increase as a percentage of total revenues as we continue to allocate resources for development and clinical trials of new test methods to expand our test menus. There can be no assurance, however, that we will undertake such research and development activities in future periods or, if we do, that such activities will be successful.

Interest Income

Our interest income was $57,000 for the three months ended September 30, 2002, compared to $30,000 for the three months ended September 30, 2001. Interest income was $120,000 for the six months ended September 30, 2002, compared to $52,000 for the six months ended September 30, 2001. The interest income of $120,000 for the first six months period of fiscal 2003 included approximately $81,000 earned on cash and cash equivalents and interest received of approximately $39,000 for our reagent rental program, in which we offer our customers extended payment terms for the purchase of instruments with no right of return provided also that they purchase a minimum quantity of reagent discs or kits from us over the term of the contract.

Interest Expense

We incurred interest expense of approximately $30,000 on our capital equipment loan and line of credit and approximately $5,000 on capital leases for equipment during the three months ended September 30, 2002. No interest was capitalized during the period. During the three months ended September 30, 2001, we incurred interest

expense of approximately $64,000 on our capital equipment loans and line of credit during the three months ended September 30, 2001, net of capitalized interest of $37,000 on the purchase and installation of our new semi-automated disc production line and other manufacturing equipment under construction related to its new facility. During the three months ended September 30, 2001, the Company incurred other expense of $6,000 for currency losses. Interest expense for the six months ended September 30, 2002 was $89,000. No interest expense was capitalized during the period. Interest expense for the six months ended September 30, 2001 was $122,000, net of capitalized interest of $74,000 and other expense of $6,000 for currency losses. We expect interest expense to decrease in the fiscal year ending March 31, 2003 compared to the fiscal year ended March 31, 2002 as we expect to rely less on bank financing than in the past.

Income Taxes

Income tax expense totaled $3,000 for the three months ended September 30, 2002 compared to income tax expense of $0 for the three months ended September 30, 2001. Income tax expense in these two periods primarily represents taxes on the portion of taxable income for which net operating loss carry-forwards could not be utilized under the federal alternative minimum tax rules. Income tax expense totaled $13,000 for the six months ended September 30, 2002 compared to $4,000 for the six months ended September 30, 2001.

Liquidity and Capital Resources

As of September 30, 2002, we had $10,631,000 in cash and cash equivalents. We expect to incur substantial additional costs to support our future operations, including further commercialization of our products and development of new test methods that will allow us to expand our veterinary market and further penetrate the human diagnostic market; acquisition of capital equipment for our manufacturing facility, which includes the ongoing costs related to continuing development of our current and future products; and additional pre-clinical testing and clinical trials for our current and future products.

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

Net cash provided by operating activities during the six months ended September 30, 2002 was $1,539,000 compared to net cash provided by operating activities of $963,000 in the six months ended September 30, 2001. Net cash provided by operating activities was due primarily to net income of $406,000 plus depreciation and amortization of $773,000, a decrease of $296,000 in prepaid expenses and increases totaling $702,000 in accounts payable and deferred rent. These sources of cash were partially offset by increases totaling $462,000 in trade receivables, inventories, deposits and other assets and decreases in accrued payroll and related expenses, warranty reserve, other accrued liabilities, deferred revenue and long-term commission obligations totaling $154,000.

Net cash used in investing activities for the six months ended September 30, 2002 was $670,000 as compared to net cash used of $416,000 for the six months ended September 30, 2001. The increase in net cash used is due to an increase in the purchases of property and equipment.

Net cash provided by financing activities for the six months ended September 30, 2002 was $5,664,000 as compared to net cash used of $96,000 for the six months ended September 30, 2001. Net cash provided by financing activities for the six months ended September 30, 2002 was primarily the result of net cash proceeds from issuance of Series E preferred stock of $6,812,000 and the exercise of common stock options of $148,000 offset by repayments on the line of credit of $1,000,000 and equipment financing and lease obligations of $296,000. Net cash provided by financing activities for the six months ended September 30, 2001 was primarily the result of proceeds from the exercise of common stock options of $289,000 offset by repayment on equipment financing and lease obligations of $385,000.

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

During the three months ended September 30, 2002, certain holders of Series E Preferred converted 1,800 shares into 276,922 shares of common stock. The remaining shares of Series E Preferred automatically converts into 856,924 shares of common stock upon the earlier of: (i) the first date following March 28, 2003 on which the closing per share price of our common stock exceeds $12.00 for twenty consecutive trading days (the "Automatic Price Conversion Date"), or (ii) March 28, 2007; provided, however, that if the closing sales price of our common stock as reported on Nasdaq National Market System is less than $6.50 for each of the twenty (20) consecutive trading days immediately prior to and including March 28, 2007, then the Series E preferred stock will convert into common stock automatically upon the earlier to occur of (A) March 28, 2008, or (B) the Automatic Price Conversion Date. The shares may also be converted at the option of the holder at any time. The number of common shares into which the Series E convertible preferred stock is convertible is subject to adjustment for anti-dilution, stock splits, and other certain events.

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

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

The amounts recorded in our financial statements for the three and six months ended September 30, 2002, representing the amounts attributed to the closings in April 2002, were as follows: net cash proceeds - $3,366,000 ($254,000 of issuance costs incurred), allocation to warrants issued to investors - $590,000, warrants issued to advisors for services - $361,000, and the amount of the dividend charge related to the beneficial conversion feature - $370,000.

Line of Credit and Long-Term Debt – In March 2002, we terminated certain line of credit and equipment financing loans and entered into new line of credit and equipment financing loans with Comerica Bank-California. The new line of credit provides for borrowings of up to $5,250,000, based on our outstanding accounts receivables and inventory, as defined by the bank: up to $4,000,000 is collateralized by domestic receivables and up to $1,250,000 is collateralized by foreign receivables. This new line of credit bears interest at the prime rate, which was 4.75% at September 30, 2002, and is payable monthly. Of the $4,000,000 domestic line of credit, $820,000 was committed to secure a letter of credit for our facilities lease. The domestic line of credit terminates upon notification by either party and the outstanding balance is payable upon demand. The foreign line of credit expired in September 2002 and was renewed until September 2003. The weighted average interest rate on borrowings under our line of credit facilities during the three months ended September 30, 2002 and 2001 was 4.75% and 7.43%, respectively. We paid down $1,000,000 of our domestic line of credit during the three and six months ended September 30, 2002. At September 30, 2002, the amount outstanding under our line of credit, which consists of both domestic and foreign borrowings, was $1,000,000 and $2,062,000 was available for additional borrowings. In October 2002, we paid down the $1,000,000 remaining balance of our domestic line of credit.

The balance of the new equipment financing loan at September 30, 2002 was $1,167,000. The equipment loan bears interest at the prime rate plus 1%, which was 5.75% at September 30, 2002, and is payable in monthly installments of principal and interest totaling approximately $42,000 over a period of three years. The weighted average interest rate on equipment financing loans during the three months ended September 30, 2002 and 2001 was 5.75% and 7.93%, respectively.

The line of credit and equipment financing agreements contain certain financial covenants, which are evaluated on a quarterly basis. Included in these financial covenants, among other stipulations, is a requirement that we have a minimum net income of $25,000 before preferred stock dividends and accretion in any three quarters of a fiscal

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

Borrowings under the line of credit and equipment financing loans are secured by a pledge of our net book value of assets of $24.5 million at September 30, 2002 including our intellectual property.

Critical Accounting Policies – We have identified certain accounting policies as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to the identified critical accounting policies on our business operations are discussed in our Annual Report on Form 10-K for the fiscal year ended March 31, 2002 filed with the Securities and Exchange Commission. The impact and associated risks of the identified critical accounting policies for the three months ended September 30, 2002 are consistent with the discussions in our Annual Report on Form 10-K for the fiscal year ended March 31, 2002.

Contingencies – On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringes on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In addition to claiming unspecified monetary damages, Idexx requested that the Court issue a preliminary injunction to prevent Abaxis and S.A. Scientific from making, using, selling, offering to sell in the United States or importing into the United States our canine heartworm test until a trial on the merits of the claim is completed. We have incurred and will continue to incur expenses in the defense of such claims and our attention may be diverted from our operations. For the three and six months ended September 30, 2002, revenues from the sales of canine heartworm test were $224,000 and $467,000, respectively. On September 3, 2002, the United States District Court of Maine granted a preliminary injunction in favor of Idexx, under which we cannot, pending the resolution of patent litigation by Idexx against us, make, use, sell, offer to sell or import the enjoined version of the VetScan Canine Heartworm Antigen Test manufactured by S.A. Scientific, Inc. of San Antonio, Texas in the United States. This injunction will adversely affect our revenues. Although we disagree with the Court's opinion and we have filed an appeal of the Court's order to the Court of Appeals for the Federal Circuit, we are currently engaged in negotiations with Idexx to begin mediation and reach an out-of-court settlement, in addition to continuing with pre-trial motions and depositions. The outcome of the dispute, including whether we can reach an out-of-court settlement, cannot be predicted with certainty. Consequently, we cannot estimate the effect of this potential liability on our financial condition, results of operations or cash flows. Legal and related costs to defend legal action filed by Idexx were $505,000 and $729,000, for the three and six months ended September 30, 2002, respectively, as adjusted to account for the even division of legal fees incurred by us and S.A. Scientific under a joint representation agreement entered into between us and S.A. Scientific on May 8, 2002.

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

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

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

In September 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force Issue No. 94-3. We will adopt the provisions of

SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost was recognized at the date of our commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

RISK FACTORS THAT MAY AFFECT OUR PERFORMANCE

The future events that we describe in these risk factors involve risks and uncertainties, among them are risks and uncertainties related to:

- the market acceptance of our products;
- our continuing development of our products;
- obtaining required Food and Drug Administration clearance and other federal, state and local government approvals;
- the manufacture and distribution of our products on a commercial scale;
- general market conditions; and
- competition.

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

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

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

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

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

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

We are not able to accurately predict our sales in future quarters. In any quarter, we derive over 50% of our revenues from three distributors who resell our products to the ultimate user. While we are better able to predict sales of our reagent discs, as we sell these discs primarily for use with analyzers that we sold in prior periods, we generally are unable to predict with much certainty sales of our analyzers, as we typically sell our analyzers to new users. Accordingly, our sales in any one quarter are not indicative of our sales in any future period. In addition, we generally operate with limited order backlog, because we ship our products shortly after we receive the orders from our customers. As a result, our product sales in any quarter are generally dependent on orders that we receive and ship in that quarter. We base our expense levels, which are to a large extent fixed, in part on our expectations as to

future revenues. We may be unable to reduce our spending in a timely manner to compensate for any unexpected revenue shortfall. As a result, any such shortfall would immediately materially and adversely impact our operating results and financial condition. In addition, we have historically experienced a decrease in our sales, especially in Europe, in our second and third quarters. Accordingly, we believe that period to period comparisons of our results of operations are not necessarily meaningful.

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

- new product announcements made by us or our competitors;
- changes in our pricing structures or the pricing structures of our competitors;
- our ability to develop, introduce and market new products on a timely basis;
- our manufacturing capacities and our ability to increase the scale of these capacities;
- the mix of product sales between our analyzer and our reagent disc products;
- the amount we spend on research and development; and
- changes in our strategy.

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

Our core compact blood analyzer product differs substantially from current blood analyzers on the market. Historically we have marketed our VetScan analyzer to veterinarians and we have limited experience in large scale sales of our Piccolo analyzer into the human market. We continue to develop new animal blood tests that we cannot be assured will be accepted by the veterinarian market.

Although we believe that our blood analyzers offer consumers many advantages, including substantial cost savings, in terms of the actual product and implementation of it procedurally, the medical market is highly regulated, structured and often slow to change. If we are unable to convince large numbers of medical clinics, hospitals and other points-of-care of the benefits of our products, we will suffer lost sales and could fail to achieve anticipated revenue.

We May Need Additional Funding In The Future And These Funds May Not Be Available To Us

We believe that our existing capital resources, bank and equipment financing loans and anticipated revenue from the sales of our products will be adequate to satisfy our currently planned operating and financial requirements through fiscal year 2004, although no assurances can be given. We will need additional funds, however, if we do not achieve anticipated revenues from the sale of our Piccolo and VetScan DXS products. In addition, we expect to incur substantial additional costs to support our future operations, including:

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

To the extent that our existing resources and anticipated revenue from the sale of our products are insufficient to fund our activities, we will have to raise additional funds from the issuance of public or private securities. We may not be able to raise additional funding, or if we are able to, we may not be able to raise funding on acceptable terms. We may dilute then-existing shareholders if we raise additional funds by issuing new equity securities. Alternatively, we may have to relinquish rights to certain of our technologies, products and/or sales territories if we are required to obtain funds through arrangements with collaborative partners. If we are unable to raise needed funds, we may be required to curtail our operations significantly. This would materially adversely

affect our operating results and financial condition.

We Are Currently Subject To a Patent Infringement Action Which, If Resolved Against Us, Could Both Adversely Affect Our Financial Position And Hamper Our Business

On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringes on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In addition to claiming unspecified monetary damages, Idexx requested that the Court issue a preliminary injunction to prevent Abaxis and S.A. Scientific from making, using, selling, offering to sell in the United States or importing into the United States our canine heartworm test until a trial on the merits of the claims is completed. On September 3, 2002, the United States District Court of Maine granted a preliminary injunction in favor of Idexx, under which we cannot, pending the resolution of patent litigation by Idexx against us, make, use, sell, offer to sell or import the enjoined version of the VetScan Canine Heartworm Antigen Test manufactured by S.A. Scientific, Inc. of San Antonio, Texas in the United States. This injunction will adversely affect our revenues. We disagree with the Court's opinion and have filed an appeal of the Court's order to the Court of Appeals for the Federal Circuit. The parties are currently engaged in discussions to begin mediation and potentially reach a settlement of the Idexx claims, in addition to continuing pre-trial motions and depositions. There can be no assurance that we will be able to reach an out-of-court settlement with Idexx. Further, although we believe that the Court's granting of a preliminary injunction to Idexx is erroneous and, absent an out-of-court settlement, intend to defend ourselves vigorously, the outcome of the dispute cannot be predicted with certainty.

Consequently, we cannot estimate the ultimate impact on our financial condition, results of operations or cash flows. In the event that the Court finds in favor of Idexx at trial, we may be forced to pay Idexx monetary damages, be permanently enjoined from selling the enjoined version of the canine heartworm product manufactured by S.A. Scientific, be required to seek a license agreement with Idexx pertaining to the patents, or a combination thereof. Further, we believe that offering a canine heartworm product is an important component of our suite of veterinary products and, in the event that we are permanently enjoined from selling the canine heartworm antigen test manufactured by S.A. Scientific, we may be unable to either develop an alternate canine heartworm product that does not infringe upon the Idexx patents or Idexx may offer us commercially unfeasible terms for licensing their patents. Consequently, our ability to further penetrate the veterinary market would be limited and thus our revenues and overall financial condition would be adversely affected. Even if we are successful in defending against the Idexx action, the defense of such claims has been and will continue to be expensive and may divert our management's focus away from running our business which would thus adversely affect our results of operations.

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

As of September 30, 2002, we have filed 25 patent applications in the United States and have been issued 23 patents. Additionally, we have filed several international patent applications covering the same subject matter as our domestic applications. The patent position of any medical device manufacturer, including Abaxis, is uncertain and may involve complex legal and factual issues. Consequently, we may not be issued any additional patents, either domestically or internationally. Furthermore, our patents may not provide significant proprietary protection because there is a chance that they will be circumvented or invalidated. We cannot be certain that we were the first creator of the inventions covered by our issued patents or pending patent applications, or that we were the first to file patent applications for these inventions, because (1) the United States Patent and Trademark Office maintains all patent applications in secrecy until it issues the patents and (2) publications of discoveries in the scientific or patent literature tend to lag behind actual discoveries by several months. We may have to participate in interference proceedings, which are proceedings in front of the U.S. Patent and Trademark Office, to determine who will be issued a patent. These proceedings could be costly and could be decided against us.

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

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

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

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

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

We Must Increase The Size Of, And Effectively Train And Integrate, Our Sales Force In Order To Achieve Our Anticipated Revenue

We have only twenty-six full-time sales personnel involved in our sales and marketing activities. While these individuals work with our distribution partners both domestically and internationally to extend our market reach, the primary selling activities are often done by these individuals. If we are to increase our sales, we will need to increase the size of our sales force and we intend to substantially increase our sales force in the fiscal year ending March 31, 2003. We will need to train new salespeople and supervise them closely. If we are unable to retain our existing personnel, or attract and train additional qualified personnel, our growth may be limited due to our lack of capacity to market our products.

We Need To Develop Additional Reagent Discs For The Human Diagnostic Market If We Are To Compete In That Market

We have developed a blood analysis system that consists of a portable blood analyzer and single-use reagent discs. Each reagent disc performs a series of standard blood tests. We believe that it is necessary to develop additional series of reagent discs with various tests for use with the Piccolo and VetScan DXS. Currently, we have primarily developed reagent discs suitable for the veterinary diagnostic market. In order to be competitive in the more lucrative human diagnostic market, we need to develop additional reagent discs that include certain standard tests for which the medical community receives reimbursements from third party payors such as HMOs and Medicare. The tests that we need to develop to compete in the human diagnostic market are the lipid tests, which include HDL and triglycerides. We may not be able to develop these new reagent discs on a timely and cost effective basis. Also, we may not be able to obtain regulatory clearance for these new reagent discs. Further, even if we gain regulatory approval, we may not be able to successfully manufacture or market the reagent discs. Our failure to meet one or more of these challenges will materially adversely affect our operating results and financial condition.

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

We distribute our products primarily through distributors. As a result, we are dependent upon these distributors to sell our products and to assist us in promoting and creating a demand for our products. We have a number of distributors in the United States who distribute our VetScan DXS products, although one of these distributors, Vedco, Inc. accounted for over 30% of our revenue for the three and six months ended September 30, 2002. Two other distributors, DVM Resources and American Veterinary Supply, accounted for over 5% of total revenues for the three and six months ended September 30, 2002. We believe that our future growth depends on the efforts of these distributors. If one of our distributors, particularly Vedco, Inc., were to stop selling our products we may not be able to replace such lost revenue. We operate on a purchase order basis with Vedco, Inc., DVM Resources and American Veterinary Supply and each of these distributors is under no contractual obligation to continue carrying our products. Further, many of our distributors may carry our competitors' products, and may promote our competitors' products over our own products. Finally, we do not have at this time distribution partners in the United States who distribute our products for the human diagnostic market.

We currently have exclusive distribution agreements in Argentina, Australia, Austria, Bahrain, China, Greece, Korea, Mexico, New Zealand, Portugal, South Africa, Spain, Switzerland, United Arab Emirates and the United Kingdom. Our distributor in each of these countries is responsible for obtaining the necessary approvals to sell our products. These distributors may not be successful in obtaining proper approvals for our products in their respective countries, and they may not be successful in marketing our products. We plan to enter into additional distribution

agreements to expand our international distribution base and solidify our international presence. However, we may not be successful in entering into additional distributor agreements. Our distributors may terminate their relationship with us at any time. Historically, we have experienced a high degree of turnover among our international distributors. This high degree of turnover makes it difficult for us to establish a steady distribution network overseas. Consequently, we may not be successful in marketing our Piccolo System and VetScan DXS products internationally.

We Depend On Sole Suppliers For Several Key Components To Our Products

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

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

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

- *Blood Analyzer Components:* Our analyzer products use several technologically advanced components that we currently purchase from two single source vendors, PerkinElmer, Inc. and Electro-Alliance, Inc.

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

- *Canine Heartworm Antigen Test:* Our canine heartworm antigen test is supplied to us by S.A. Scientific, Inc., with whom we are currently co-defendant in pending patent litigation. We are currently enjoined under a preliminary injunction from the Federal District Court for the District of Maine from selling our canine heartworm antigen test, pending the outcome of patent infringement claims made against us by one of our competitors, Idexx Laboratories, Inc.

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

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

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

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

- commercial clinical laboratories;

- hospitals' clinical laboratories; and

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

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

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

- range of tests offered;
- the immediacy of results;
- cost effectiveness;
- ease of use; and
- reliability of results.

We believe that we compete effectively on each of these factors except for the range of tests offered. Clinical laboratories are effective at processing large panels of tests using skilled technicians and complex equipment. While our current offering of reagent discs cannot provide the same broad range of tests, we believe that in certain limited markets our products provide a sufficient breadth of test menus to compete successfully with clinical laboratories given the advantages of our products with respect to the other four factors. However, we cannot assure you that we will continue to be able to compete effectively on cost effectiveness, ease of use, immediacy of results or reliability of results. We also cannot assure you that we will ever be able to compete effectively solely on the basis of range of tests offered.

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

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

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

We Are Subject To Numerous Governmental Regulations

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

Our Piccolo products are regulated under the 1976 Medical Device Amendments to the Food, Drug and Cosmetic Act, which is administered by the Food and Drug Administration. The FDA classified our initial Piccolo products as "Class II" devices. Class II devices require us to submit to the FDA a pre-market notification form or 510(k). The FDA uses the 510(k) to substantiate product claims that are made by medical device manufacturers prior to marketing. In our 510(k) notification, we must, among other things, establish that the product we plan to market is "substantially equivalent" to (1) a product that was on the market prior to the adoption of the 1976 Medical Device Amendment or (2) to a product that the FDA has previously cleared under the 510(k) process. The FDA review process of a 510(k) notification can last anywhere from three months to over a year, and the FDA must issue a written order finding "substantial equivalence" before a company can market a medical device. To date, we have received market clearance from the FDA for our Piccolo System and 19 reagent tests that we have on five reagent discs. We are currently developing additional tests that the FDA will have to clear through the 510(k) notification procedures. These new test products are crucial for our success in the human diagnostic market. If we do not receive 510(k) clearance for a particular product, we will not be able to sell that product in the United States.

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

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

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

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

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

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

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

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

We are highly dependent on the principal members of our management and scientific staff. The loss of any of these key personnel, including in particular Clinton H. Severson, our President, Chief Executive Officer and Chairman of our Board of Directors, might impede the achievement of our business objectives. Mr. Severson's amended and restated employment agreement with us was filed with the SEC on August 14, 2002 as an exhibit to our quarterly report for the quarter ended June 30, 2002. We are not aware of any member of our executive management team who intends to retire within one year of the date of this filing. We currently do not maintain key man life insurance on any of our employees. Although historically we have been relatively successful both in retaining our current management and scientific staff and attracting and retaining skilled and experienced marketing, sales and manufacturing personnel, we may not be able to employ such personnel on acceptable terms in the future because numerous medical products and other high technology companies compete for the services of these qualified individuals.

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

Our business involves applying sophisticated methods to raw materials and producing defect-free medical test equipment. Although we have established procedures for quality control on both the raw materials that we

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

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

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

We Must Comply With Strict And Costly Environmental Regulations

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

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

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

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

During 2001, the western United States (and California in particular) experienced repeated episodes of diminished electrical power supply. If such episodes recur, certain of our operations or facilities may be subject to "rolling blackouts" or other unscheduled interruptions of electrical power. The prospect of such unscheduled interruptions may continue for the foreseeable future and we are unable to predict either their occurrence, duration or cessation. In addition, due to these power supply shortages, we may be subject to significantly greater power

costs which may adversely affect our financial results.

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

Although our international sales are denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. Our operating results could also be adversely affected by the economic conditions of our overseas markets.

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

For our accounts receivable line of credit, the interest rate is equal to the prime rate. Consequently, an increase in the prime rate would expose us to higher interest expenses. The balance on our accounts receivable line of credit was $1,000,000 as of September 30, 2002. Based on this balance, for each 1% increase in the prime rate, we would pay approximately $2,500 of additional interest each quarter.

For our long-term debt, which is our equipment loan, the interest rate is equal to 1.0% over the prime rate. As with our accounts receivable credit facility, any increase in interest rates would expose us to higher interest expenses. The balance on our long-term debt was $1,167,000 as of September 30, 2002. Based on this balance, for each 1% increase in the prime rate, we would pay a total of approximately $2,900 of additional interest each quarter.

All of our sales are denominated in US dollars, except for sales under our OEM agreement to provide VetScan systems to MELET which are denominated in Euros. Sales to MELET during the three months ended September 30, 2002 were less than 3% of our total revenues. There was no amount owed by MELET at September 30, 2002.

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

Item 4. Controls and Procedures

(a) Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-14(c) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), within 90 days of the filing date of this report. Based on their evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

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

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On March 28, 2002, Idexx Laboratories, Inc., our principal competitor in the veterinary diagnostic market, filed a complaint in the United States District Court for the District of Maine (Civil Action Docket No. 02-69-P-H) alleging that a canine heartworm test produced for us by a third party, S.A. Scientific, Inc., and sold using the Abaxis brand infringes on U.S. Patents Nos. 4,965,187 and 4,939,096 held by Idexx. In addition to claiming unspecified monetary damages, Idexx requested that the Court issue a preliminary injunction to prevent Abaxis and S.A. Scientific from making, using, selling, offering to sell in the United States or importing into the United States the canine heartworm test until a trial on the merits of the claim is completed. We have incurred and will continue to incur expenses in the defense of such claims and management's attention may be diverted from its operations. For the three and six months ended September 30, 2002, revenues from sales of canine heartworm test were $224,000 and $467,000, respectively. On September 3, 2002, the United States District Court of Maine granted a preliminary injunction in favor of Idexx, under which we cannot, pending the resolution of patent litigation by Idexx against us, make, use, sell, offer to sell or import the enjoined version of the VetScan Canine Heartworm Antigen Test manufactured by S.A. Scientific, Inc. of San Antonio, Texas in the United States. This injunction will adversely affect our revenues. We disagree with the Court's opinion and we have filed an appeal of the Court's preliminary injunction to the Court of Appeals for the Federal Circuit.

The parties are currently engaged in negotiations to begin mediation and potentially reach a settlement of the Idexx claims, in addition to continuing pre-trial motions and depositions. Although we believe that the Court's ruling is erroneous and, absent an out-of-court settlement, we intend to defend ourselves vigorously, the outcome of the dispute cannot be predicted with certainty. On May 8, 2002, we entered into an agreement with S.A. Scientific under which we agreed to joint representation by counsel to defend the legal action filed by Idexx. Our portion of legal and related costs to defend legal action filed by Idexx were $505,000 and $729,000, for the three and six months ended September 30, 2002, respectively.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other Information

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

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

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

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

Abaxis is hereby filing two exhibits as Exhibits 10.32 and 10.33 that were inadvertently omitted from prior periodic filings. Specifically, Abaxis is filing a June 1997 letter from Abaxis to Pharmacia Biotech, Inc. pertaining to the two companies' commercial relationship. In addition, Abaxis is filing a December 1997 letter from Abaxis to

Becton Dickinson in which Abaxis notified Becton Dickinson that under the terms of the Abaxis Supply Agreement dated September 16, 1994, exclusivity under the agreement had lapsed.

Exhibit Number	Description
10.31	Loan Revision/Extension Agreement with Comerica Bank - California dated September 23, 2002
10.32+	Letter Setting Forth Additional Terms of Relationship Between Abaxis and Pharmacia Biotech dated as of June 9, 1997
10.33	Letter Regarding Abaxis Supply Agreement with Becton Dickinson, Inc. dated as of December 12, 1997
99.1	Certification of Chief Executive Officer
99.2	Certification of Chief Financial Officer

+ Confidential treatment has been requested for certain portions of this exhibit. The omitted portions have been separately filed with the Commission.

(b) Reports on Form 8-K

On September 3, 2002, we filed a Current Report on Form 8-K to announce that the Federal District Court for the District of Maine had entered a preliminary injunction against us and S.A. Scientific, Inc. under which we are enjoined from selling our canine heartworm antigen test pending the resolution of litigation pending against us.

SIGNATURES

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

ABAXIS, INC.

(Registrant)

Date: November 11, 2002

By: /s/ Clinton H. Severson

Clinton H. Severson

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

Date: November 11, 2002

By: /s/ Alberto R. Santa Ines

Alberto R. Santa Ines

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

CERTIFICATIONS PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14

I, Clinton H. Severson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 11, 2002

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

I, Alberto R. Santa Ines, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 11, 2002

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

LOAN

REVISION/EXTENSION

AGREEMENT

BORROWER:
Abaxis, Inc.
3240 Whipple Blvd.
Union City, CA 94587
(Herein called "Borrower")

COMERICA BANK-CALIFORNIA:
(Herein called "Bank")

Original Note Information	Interest Rate	Amount	Note Date	Maturity	Obligor #	Note #
	B+0.500%	$1,250,000.00	03/13/02	09/11/02	0045218405	91

This Agreement is Effective as of: September 23, 2002

ORIGINAL OBLIGATION:

This Loan Revision Agreement refers to the loan evidenced by the above Note dated March 13, 2002 in favor of Bank executed by Abaxis, Inc. in the amount of $1,250,000.00 payable in full on September 11, 2002. ☐ Said Note is secured by a Deed of Trust dated N/A (hereinafter referred to as the "Encumbrance"), recorded on N/A as Instrument No. N/A in the Office County Recorder of N/A County California.

CURRENT OBLIGATION:
The unpaid principal balance of said Note as of September 23, 2002 is $0.00 on which interest is paid to April 30, 2002, with a maturity of September 11, 2002. ☒ As modified by previous Loan Revision/ Extension Agreement dated March 29, 2002.

REVISION:
The undersigned Borrower hereby requests Bank to revise the terms of said Note, and said Bank to accept payment thereof at the time, or times, in the following manner:

(1) The maturity date is hereby amended from September 11, 2002 to September 11, 2003.
(2) The interest rate of the Note remains unchanged at B+0.00% per annum.

In consideration of Bank's acceptance of the revision of said Note, including the time for payment thereof, all as set forth above, the borrower does hereby acknowledge and admit to such indebtedness, and further does unconditionally agree to pay such indebtedness together with interest thereon within the time and in the manner as revised in accordance with the foregoing, together with any and all attorney's fees, cost of collection, and any other sums secured by the Encumbrance.

Any and all security for said Note including but not limited to the Encumbrance, if any, may be enforced by Bank concurrently or independently of each other and in such order as Bank may determine; and with reference to any such security in addition to the Encumbrance Bank may, without consent of or notice to Borrower, exchange, substitute or release such security without affecting the liability of the Borrower, and Bank may release any one or more parties hereto or to the above obligation or permit the liability of said party or parties to terminate without affecting the liability of any other party or parties liable thereon.

This Agreement is a revision only, and not a novation; and except as herein provided, all of the terms and conditions of said Note, said Encumbrance and all related documents shall remain unchanged and in full force and effect.

When one or more Borrowers signs this Agreement, all agree:

a. That where in this Agreement the word "Borrower" appears, it shall read "each Borrower";
b. That breach of any covenant by any Borrower may at the Bank's option by treated as breach by all Borrowers;
c. That the liability and obligations of each Borrower are joint and several.

Dated this 23rd day of September, 2002.

Abaxis, Inc.
/s/ Alberto Santa Ines

The foregoing agreement is accepted this 23rd day of September, 2002.

By: /s/ Florina Sy
Florina A. Sy, Corporate Banking Officer

Each of the undersigned agree and consent to the foregoing revisions to this Agreement and the Encumbrance, if any.

Abaxis
1320 Chesapeake Terrace, Sunnyvale, CA 94089
Phone 408-734-0200
Fax 408-734-2874

June 9, 1997

Dr. Rama Ramanujam
Pharmacia Biotech
Molecular Biology Reagents Division
2202 North Bartlett Avenue
Milwaukee, WI 53202

Dear Rama:

My sincere apologies for the delay in sending you this letter. I understand from our discussions in February, 1997, and your follow-up letter of March 4, 1997, that Pharmacia Biotech is requesting to expand our current license agreement pursuant to clause 2.2 to include viral DNA/RNA (Human Immunodeficiency Virus and Hepatitis Virus) and Human Leukocyte Antigen (HLA) allele typing.

In our meeting in February, 1997, we explored possible financial terms that an expansion in the field of use may be mutually attractive and beneficial. We have also had additional internal discussions on the subject. For purposes of clarification and discussion only, I am communicating the specific terms that Abaxis, Inc., is proposing for the expansion of field of use:

The expanded fields of use shall include viral DNA/RNA (Human Immunodeficiency Virus and Hepatitis Virus) and Human Leukocyte Antigen (HLA) allele typing;
The licenses granted in the expanded fields of use shall be non-exclusive;
The terms for the expanded field of use shall be a separate rider agreement to the original agreement;
The royalty rate shall be [***] of Net Sales of Licensed Products in the new fields of use. Payment details shall follow those of the original agreement.

I communicated these terms to you previously in our telephone conversation in April, 1997. Please be informed that these terms represent the basic framework for the expanded coverage of the license agreement and are non-binding, subject to further changes as details of the agreement are finalized.

I shall await your response to these proposed terms. When all the basic terms are mutually agreed upon, our legal consul will expedite preparation of the new agreement. I believe this proposal reflects our common understanding at this point. I look forward to a favorable response.

Sincerely,

By /s/ Daniel Wong
Daniel Wong, Ph.D.
Vice President
Development

*** CERTAIN INFORMATION ON THIS PAGE HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

Abaxis
1320 Chesapeake Terrace, Sunnyvale, CA 94089
Phone 408-734-0200
Fax 408-734-2874

December 12, 1997

Becton Dickinson and Company
Law Department
One Becton Drive
Franklin Lakes, NJ 07417-1880

Attention: Vice President & General Manager

Dear Ladies and Gentlemen:

We hereby inform you that we are terminating your exclusivity pursuant to that certain Abaxis Supply Agreement dated September 16, 1994 by and between Abaxis, Inc. and Becton, Dickinson and Company (the "Agreement"). We are terminating your exclusivity pursuant to Section 2 of the Agreement based on your failure to order the annual minimum quantities set forth in Section 2 of the Agreement.

If you have any questions, please contact me.

Very truly yours,

ABAXIS, INC.

By /s/ Ting W. Lu
Ting W. Lu, Vice President of
Finance and CFO

cc: Vice President and General Manger
Becton Dickinson Immunocytometry Systems
San Jose, CA

Certification of Chief Executive Officer

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

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

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

Dated: November 11, 2002

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

Certification of Chief Financial Officer

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

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

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

Dated: November 11, 2002

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