ABAXIS INC
Form 10-Q
August 09, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2010

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number 000-19720
ABAXIS, INC.
(Exact name of registrant as specified in its charter)

California	**77-0213001**
(State of Incorporation)	*(I.R.S. Employer Identification No.)*

3240 Whipple Road
Union City, California 94587
(Address of principal executive offices)
(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 such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of August 5, 2010, there were 22,322,000 shares of the Registrant s common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

ABAXIS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except share and per share data)

	Three Months Ended June 30,	
	2010	**2009**
Revenues	$ 34,953	$ 29,625
Cost of revenues	15,169	12,470
Gross profit	19,784	17,155
Operating expenses:		
Research and development	3,078	2,573
Sales and marketing	8,633	6,360
General and administrative	2,124	2,498
Total operating expenses	13,835	11,431
Income from operations	5,949	5,724
Interest and other income (expense), net	(105)	514
Income before income tax provision	5,844	6,238
Income tax provision	2,264	2,482
Net income	$ 3,580	$ 3,756
Net income per share:		
Basic net income per share	$ 0.16	$ 0.17
Diluted net income per share	$ 0.16	$ 0.17
Shares used in the calculation of net income per share:		
Weighted average common shares outstanding basic	22,211,000	21,965,000
Weighted average common shares outstanding diluted	22,750,000	22,357,000

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ABAXIS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except share data)

	June 30, 2010	March 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 36,348	$ 27,857
Short-term investments	28,500	32,343
Receivables (net of allowances of $416 at June 30, 2010 and $446 at March 31, 2010)	23,879	23,714
Inventories	17,153	19,067
Prepaid expenses and other current assets	1,182	1,588
Net deferred tax assets, current	3,655	3,773
Total current assets	110,717	108,342
Long-term investments	33,529	36,319
Property and equipment, net	15,707	15,544
Intangible assets, net	4,456	4,600
Net deferred tax assets, non-current	2,935	2,935
Other assets	84	76
Total assets	$ 167,428	$ 167,816
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 4,713	$ 9,404
Accrued payroll and related expenses	5,236	5,615
Accrued taxes	1,571	400
Other accrued liabilities	1,027	1,256
Deferred revenue	1,032	1,157
Warranty reserve	942	1,183
Total current liabilities	14,521	19,015
Non-current liabilities:		
Deferred rent	234	163
Deferred revenue	1,582	1,359
Warranty reserve	72	160
Total non-current liabilities	1,888	1,682
Commitments and contingencies (Note 8)		
Shareholders equity:		
Preferred stock, no par value; 5,000,000 shares authorized; no shares issued and outstanding		

Common stock, no par value; 35,000,000 shares authorized; 22,287,000 and 22,112,000 shares issued and outstanding at June 30, 2010 and at March 31, 2010, respectively	125,370	125,050
Retained earnings	25,649	22,069
Total shareholders equity	151,019	147,119
Total liabilities and shareholders equity	$ 167,428	$ 167,816

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ABAXIS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended June 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 3,580	$ 3,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,052	1,290
Investment premium amortization	95	11
Loss on disposals of property and equipment	4	6
Net loss (gain) on foreign exchange translation	300	(88)
Share-based compensation expense	1,134	896
Excess tax benefits from share-based awards	(409)	(190)
Provision for deferred income taxes	118	245
Changes in assets and liabilities:		
Receivables, net	(192)	(2,099)
Inventories	1,669	(93)
Prepaid expenses and other current assets	403	(30)
Other assets	(14)	(11)
Accounts payable	(4,659)	340
Accrued payroll and related expenses	(379)	598
Accrued taxes	1,611	1,770
Other accrued liabilities	(227)	19
Deferred rent	71	(45)
Deferred revenue	98	(98)
Warranty reserve	(329)	88
Net cash provided by operating activities	3,926	6,365
Cash flows from investing activities:		
Purchases of available-for-sale investments		(3,030)
Purchases of held-to-maturity investments	(14,680)	(11,706)
Proceeds from redemptions of available-for-sale investments		798
Proceeds from maturities and redemptions of held-to-maturity investments	21,218	5,597
Purchases of property and equipment	(815)	(373)
Net cash provided by (used in) investing activities	5,723	(8,714)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	324	38
Tax withholdings related to net share settlements of restricted stock units	(1,562)	(287)
Excess tax benefits from share-based awards	409	190

Net cash used in financing activities	(829)	(59)
Effect of exchange rate changes on cash and cash equivalents	(329)	39
Net increase (decrease) in cash and cash equivalents	8,491	(2,369)
Cash and cash equivalents at beginning of period	27,857	49,237
Cash and cash equivalents at end of period	$ 36,348	$ 46,868
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	$ 168	$ 227
Supplemental disclosure of non-cash flow information:		
Change in unrealized gain (loss) on investments, net of tax	$	$ (11)
Transfers of equipment between inventory and property and equipment, net	$ 260	$ 347
Net change in capitalized share-based compensation	$ 15	$ 7
Common stock withheld for employee taxes in connection with share-based compensation	$ 1,562	$ 287

The accompanying notes are an integral part of these condensed consolidated financial statements.

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ABAXIS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business. Abaxis, Inc. (Abaxis, the Company or we), incorporated in California in 1989, develops, manufactures, markets and sells portable blood analysis systems for use in the human or veterinary patient-care setting to provide clinicians with rapid blood constituent measurements.

In July 2008, our sales office in Darmstadt, Germany was incorporated as Abaxis Europe GmbH to market, promote and distribute diagnostic systems for medical and veterinary uses. Abaxis Europe GmbH, our wholly-owned subsidiary, was formed to provide customer support in a timely manner in response to the growing and increasingly diverse services needs of customers in the European market.

Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements as of and for the three-month period ended June 30, 2010 include the accounts of Abaxis and our wholly-owned subsidiary, Abaxis Europe GmbH. Intercompany transactions and balances have been eliminated in consolidation.

Basis of Presentation. We have prepared the unaudited condensed consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC) for interim periods. The unaudited condensed consolidated financial statements included herein reflect all normal recurring adjustments, which are, in the opinion of our management, necessary to state fairly the results of operations and financial position for the periods presented. The results for the three-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2011 or for any interim or future period.

These unaudited condensed consolidated financial statements should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

Reclassifications. Certain reclassifications have been made to prior periods financial statements to conform to the current period presentation. These reclassifications did not result in any change in previously reported net income, total assets or shareholders equity.

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Such management estimates include allowance for doubtful accounts, fair value of investments, sales and other allowances, valuation of inventory, fair value of purchased intangible assets, useful lives of intangible assets, income taxes, valuation allowance for deferred tax assets, share-based compensation and warranty reserves. Our management bases their estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Our actual results may differ materially from these estimates.

Significant Accounting Policies. The significant accounting policies used in preparation of these condensed consolidated financial statements are consistent with those disclosed in our Annual Report on Form 10-K for the year ended March 31, 2010 filed with the SEC on June 14, 2010, and have not changed significantly as of June 30, 2010.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (the FASB) issued amendments to the accounting standard addressing multiple-deliverable revenue arrangements. The amendments provide guidance in addressing how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting, and how to allocate the consideration to each unit of accounting. In an arrangement with multiple deliverables, the delivered items shall be considered a separate unit of accounting if the delivered items have value to the customer on a stand-alone basis. Items have value on a stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered items on a stand-alone basis; and if the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the vendor. This amendment is effective for the Company on April 1, 2011. We are

currently evaluating the impact of adopting these amendments on our consolidated financial position, results of operations or cash flows.

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NOTE 3. INVESTMENTS

The following table summarizes short-term and long-term investments by major security type (in thousands):

	June 30, 2010		
	Cost or Amortized Cost	Gross Unrealized Gain (Loss)	Fair Value
Short-term investments			
Held-to-maturity:			
Certificates of deposits	$ 17,965	$	$ 17,965
Corporate bonds	10,535		10,535
Total short-term investments in held-to-maturity	$ 28,500	$	$ 28,500
Long-term investments			
Held-to-maturity:			
Certificates of deposits	$ 4,372	$	$ 4,372
Corporate bonds	5,683		5,683
Municipal bonds	3,382		3,382
U.S. agency securities	20,092		20,092
Total long-term investments in held-to-maturity	$ 33,529	$	$ 33,529

	March 31, 2010		
	Cost or Amortized Cost	Gross Unrealized Gain (Loss)	Fair Value
Short-term investments			
Held-to-maturity:			
Certificates of deposits	$ 15,767	$	$ 15,767
Corporate bonds	10,549		10,549
Municipal bonds	6,027		6,027
Total short-term investments in held-to-maturity	$ 32,343	$	$ 32,343
Long-term investments			
Held-to-maturity:			
Certificates of deposits	$ 6,562	$	$ 6,562
Corporate bonds	5,720		5,720
Municipal bonds	3,407		3,407
U.S. agency securities	20,630		20,630
Total long-term investments in held-to-maturity	$ 36,319	$	$ 36,319

As of June 30, 2010 and March 31, 2010, we had no unrealized gain (loss) on investments.

The contractual maturities of short-term and long-term investments as of June 30, 2010 and March 31, 2010, are as follows (in thousands):

Investments	June 30, 2010 Fair Value	March 31, 2010 Fair Value
Due in less than one year	$ 28,500	$ 32,343
Due in 1 to 4 years	33,529	36,319
Total investments	$ 62,029	$ 68,662

NOTE 4. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that are supported by little or no market data and require the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management s estimates of market participant assumptions.

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The following table summarizes financial assets, measured at fair value on a recurring basis, by level within the fair value hierarchy as of June 30, 2010 and March 31, 2010 (in thousands):

	As of June 30, 2010			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets				
Cash equivalents	$ 11,412	$	$	$ 11,412
Total assets at fair value	$ 11,412	$	$	$ 11,412

	As of March 31, 2010			
	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Total
Assets				
Cash equivalents	$ 4,618	$	$	$ 4,618
Total assets at fair value	$ 4,618	$	$	$ 4,618

Our Level 1 financial assets are cash equivalents, comprised of money market mutual funds, which are highly liquid instruments with original or remaining maturities of three months or less at the time of purchase that are readily convertible into cash. The fair value of our Level 1 financial assets is based on quoted market prices of the underlying security. As of June 30, 2010 and March 31, 2010, we did not have any Level 2 or Level 3 financial assets or liabilities measured at fair value on a recurring basis.

NOTE 5. INVENTORIES

Inventories, include material, labor and overhead, and are stated at the lower of cost (first-in, first-out method) or market. Components of inventories were as follows (in thousands):

	June 30, 2010	March 31, 2010
Raw materials	$ 7,943	$ 8,936
Work-in-process	3,159	3,421
Finished goods	6,051	6,710
Inventories	$ 17,153	$ 19,067

NOTE 6. WARRANTY RESERVES

We provide for the estimated future costs to be incurred under our standard warranty obligation on our instruments and reagent discs.

Instruments. Our standard warranty obligation on instruments ranges from one to three years. The estimated contractual warranty obligation is recorded when the related revenue is recognized and any additional amount is recorded when such cost is probable and can be reasonably estimated. Cost of revenues reflects estimated warranty expense for instruments sold in the current period and any adjustments in estimated warranty expense for the installed base under our standard warranty obligation based on our quarterly evaluation of service experience. The estimated accrual for warranty exposure is based on historical experience as to product failures, estimated product failure rates, estimated repair costs, material usage and freight incurred in repairing the instrument after failure and known design changes under the warranty plan.

During the three months ended June 30, 2010, we recorded an adjustment to pre-existing warranties of $307,000, which reduced our warranty reserves and our cost of revenues, based on both a decrease in our historical experience as to product failures and our judgment of a decrease in estimated product failure rates of blood chemistry analyzers.

Reagent Discs. We record a provision for defective reagent discs when the related sale is recognized and any additional amount is recorded when such cost is probable and can be reasonably estimated. The warranty cost includes the replacement costs and freight of a defective reagent disc. During the three months ended June 30, 2010 and 2009, the provision for warranty expense related to replacement of defective reagent discs was $97,000 and $75,000, respectively. The balance of accrued warranty reserve related to replacement of defective reagent discs at June 30, 2010 and 2009 was $360,000 and $461,000, respectively, which was classified as a current liability on the condensed consolidated balance sheets.

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We evaluate our estimates for warranty reserves on an ongoing basis and believe we have the ability to reasonably estimate warranty costs. However, unforeseeable changes in factors may impact the estimate for warranty and such changes could cause a material change in our warranty reserve accrual in the period in which the change was identified.

The change in our accrued warranty reserve during the three months ended June 30, 2010 and 2009 is summarized as follows (in thousands):

	Three Months Ended June 30,	
	2010	2009
Balance at beginning of period	$ 1,343	$ 2,297
Provision for warranty expense	125	257
Warranty costs incurred	(147)	(169)
Adjustment to pre-existing warranties	(307)	
Balance at end of period	1,014	2,385
Non-current portion of warranty reserve	72	653
Current portion of warranty reserve	$ 942	$ 1,732

NOTE 7. LINE OF CREDIT

Through June 30, 2010, we had a line of credit with Comerica Bank-California which provided for borrowings of up to $2.0 million. At June 30, 2010, $2.0 million of borrowings were available and there was no amount outstanding under our line of credit. In July 2010, we terminated our line of credit with Comerica Bank-California for which we had no outstanding balance due. The line of credit could have been terminated upon notification by either party and any outstanding balance is payable upon demand by Comerica Bank-California. In connection with our amended facility lease agreement in March 2010, our obligation to provide a letter of credit of $97,000, which was secured by our line of credit, on our facility terminated in April 2010. The line of credit bore interest at the bank s prime rate minus 0.25%, which totaled 3.00% at June 30, 2010, and was payable monthly. The weighted average interest rates on our line of credit during the three months ended June 30, 2010 and 2009 were 3.00% and 3.00%, respectively.

The line of credit agreement contained certain financial covenants, which were evaluated on a quarterly basis. At June 30, 2010, we were in compliance with each of these covenants. Included in these financial covenants, among other stipulations, are the following requirements:

We were required to have a minimum net income of $25,000 before preferred stock dividends and accretion on preferred stock in any three quarters of a fiscal year, provided that any loss before preferred stock dividends and accretion on preferred stock incurred in the remaining quarter is not to exceed $250,000.

We were required to be profitable, as defined, on a fiscal year to date basis beginning, with respect to the current fiscal year, with the six month period ending September 30, 2010 and to have net income before preferred stock dividends and accretion on preferred stock of at least $1.2 million for the fiscal year ending March 31, 2011.

We were required to comply with certain financial covenants as follows:

Financial Covenants	Requirements
Quick ratio, as defined	Not less than 2.00 to 1.00
Cash flow coverage, as defined	Not less than 1.25 to 1.00
Debt to net worth ratio, as defined	Not greater than 1.00 to 1.00
Tangible effective net worth, as defined	Not less than $25.7 million

Borrowings under the line of credit were collateralized by our net book value of assets of $151.0 million at June 30, 2010, including our intellectual property.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Facilities Lease. In March 2010, we entered into the Fourth Amendment to Lease Agreement with Whipple Road Holdings, LLC, SFP Crossroads, LLC and Woodstock Bowers, LLC (collectively, the Landlord) (the Lease Amendment) related to our principal facility in Union City, California. Under the Lease Amendment, the lease term was extended from December 2010 to February 2021. In connection with the Lease Amendment, our obligation to provide a letter of credit, which was secured by our line of credit, on our facility terminated in April 2010 (see Note 7 for additional information). Additionally, pursuant to the Lease Amendment, the Landlord agreed to lease us certain expansion premises consisting of approximately 35,239 rentable square feet in Union City, California (the Expansion Premises). In May 2010, the Landlord tendered possession of the Expansion Premises to us. The monthly base rental rate for the Expansion Premises shall be abated for the first three months after May 2010 and thereafter increase to $0.800 per rentable square foot of the Expansion Premises ($28,191.20 per month), which base rent for the Expansion Premises increases 3% on each anniversary of March 1 during the term of the lease. As of June 30, 2010, the aggregate lease commitment on our principal facilities is approximately $15.1 million.

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Purchase Commitments. In October 2008, we entered into an original equipment manufacturing (OEM) agreement with Scandinavian Micro Biodevices APS (SMB) of Denmark to purchase coagulation analyzers and coagulation cartridges. In the fourth quarter of fiscal 2009, we started marketing the products and, upon achievement of certain milestones by SMB outlined in the agreement, we will be subject to the minimum purchase commitments under the OEM agreement. These milestones have not yet been met and we are currently purchasing coagulation analyzers and coagulation cartridges on a purchase order basis, but all such purchases will count towards the minimum purchase obligations if and when they are triggered.

In July 2010, we entered into a development and supply equipment agreement with Diatron MI PLC (Diatron) of Hungary to purchase Diatron hematology instruments. Under the agreement, we are committed to purchase a minimum number of hematology instruments on an annual basis during the calendar years 2010 and 2011. At June 30, 2010, our outstanding commitment due is approximately $4.3 million. The commitment amount is based on the minimum number of hematology instruments that we are required to purchase, the cost of the instruments and the Euro exchange rate at period-end. Since the exchange rate can fluctuate in the future, the commitment in absolute dollars will change accordingly.

Patent License Agreement. Effective January 2009, we entered into a license agreement with Inverness Medical Switzerland GmbH (Inverness). Under our license agreement, we licensed co-exclusively certain worldwide patent rights related to lateral flow immunoassay technology in the field of animal health diagnostics in the professional marketplace. The license agreement provides that Inverness shall not grant any future rights to any third parties under its current lateral flow patent rights in the animal health diagnostics field in the professional marketplace. The license agreement enables us to develop and market products under rights from Inverness to address animal health and laboratory animal research markets.

In exchange for the license rights, we (i) paid an up-front license fee of $5.0 million to Inverness in January 2009, (ii) agreed to pay royalties during the term of the agreement, based solely on sales of products in a jurisdiction country covered by valid and unexpired claims in that jurisdiction under the licensed Inverness patent rights, and (iii) agreed to pay a yearly minimum license fee of between $500,000 to $1.0 million per year, which fee will be creditable against any royalties due during such calendar year. The royalties, if any, are payable through the date of the expiration of the last valid patent licensed under the agreement that includes at least one claim in a jurisdiction covering products we sell in that jurisdiction. The yearly minimum fees are payable starting in fiscal 2011 for so long as we desire to maintain exclusivity under the agreement.

Litigation. We are involved from time to time in various litigation matters in the normal course of business. We believe that the ultimate resolution of these matters will not have a material effect on our financial position or results of operations.

On June 28, 2010, Abaxis filed a patent infringement lawsuit against Cepheid with respect to Cepheid s MRSA product on which Cepheid has ceased paying license royalties. On July 12, 2010, Cepheid filed its answer and counterclaims. The counterclaims are for non-infringement, invalidity and bad faith. We believe the counterclaims raised by Cepheid are without merit and intend to contest them vigorously. We also do not believe this litigation will have a material adverse effect on Abaxis.

NOTE 9. SHARE-BASED COMPENSATION

In accordance with ASC 718, Compensation-Stock Compensation, we recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award to employees and directors. The following table summarizes total share-based compensation expense recognized for share-based awards during the three months ended June 30, 2010 and 2009, which is included in our condensed consolidated statements of income (in thousands, except per share data):

	Three Months Ended June 30,	
	2010	**2009**
Cost of revenues	$ 145	$ 49
Research and development	339	140

Sales and marketing		494		245
General and administrative		156		462
Share-based compensation expense before income taxes		1,134		896
Income tax benefit		(432)		(292)
Total share-based compensation expense after income taxes	$	702	$	604
Net impact of share-based compensation on:				
Basic net income per share	$	0.03	$	0.03
Diluted net income per share	$	0.03	$	0.03

Share-based compensation has been classified in the condensed consolidated statements of income or capitalized on the condensed consolidated balance sheets in the same manner as cash compensation paid to employees. Capitalized share-based compensation costs at June 30, 2010 and 2009 were $109,000 and $40,000, respectively, which were included in inventories on our condensed consolidated balance sheets.

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Cash Flow Impact

The accounting standard with respect to share-based payment requires cash flows resulting from excess tax benefits to be classified as a part of cash flows from financing activities. Excess tax benefits are realized tax benefits from tax deductions for exercised stock options and vested restricted stock units in excess of the deferred tax asset attributable to share-based compensation expense for such share-based awards. Excess tax benefits are considered realized when the tax deductions reduce taxes that otherwise would be payable. Excess tax benefits classified as a financing cash inflow for the three months ended June 30, 2010 and 2009 were $409,000 and $190,000, respectively.

Equity Compensation Plans

Our share-based compensation plans are described below.

2005 Equity Incentive Plan. Our 2005 Equity Incentive Plan (the Equity Incentive Plan) restated and amended our 1998 Stock Option Plan. The Equity Incentive Plan allows for the awards of stock options, stock appreciation rights, restricted stock awards, restricted stock units, performance shares, performance units, deferred compensation awards or other share-based awards to employees, directors and consultants. On October 28, 2008, our shareholders approved an amendment to the Equity Incentive Plan to increase the shares reserved for issuance under the Equity Incentive Plan by 500,000 shares. As of June 30, 2010, the Equity Incentive Plan provides for the issuance of a maximum of 5,386,000 shares, of which 217,000 shares of common stock were then available for future issuance.

Options granted to employees and directors generally expire ten years from the grant date. Options granted to employees generally become exercisable over a period of four years based on cliff-vesting terms and continuous employment. Options granted to non-employee directors generally become exercisable over a period of one year based on monthly vesting terms and continuous service. See the Stock Options section in this Note for additional information.

Restricted stock units awarded to employees generally vest over a period of four years and the awards may also be subject to accelerated vesting upon achieving certain performance-based milestones and continuous employment during the vesting period. Restricted stock units awarded to non-employee directors generally vest in full one year after the grant date based on continuous service. See the Restricted Stock Units section in this Note for additional information.

1992 Outside Directors Stock Option Plan. Under our 1992 Outside Directors Stock Option Plan (the Directors Plan), options to purchase shares of common stock were automatically granted, annually, to non-employee directors. Options under the Directors Plan were nonqualified stock options and were granted at the fair market value on the date of grant and expired ten years from the date of grant. Options granted to non-employee directors generally become exercisable over a period of one year based on monthly vesting terms and continuous service. The Directors Plan provided for the issuance of a maximum of 250,000 shares. As of June 30, 2010, all outstanding options under the Directors Plan were fully vested and fully exercisable and no shares of common stock were available for future issuance because the time period for granting options expired in accordance with the terms of the Directors Plan in June 2002.

Our current practice is to issue new shares of common stock from our authorized shares for share-based awards upon the exercise of stock options or vesting of restricted stock units.

Stock Options

Prior to April 1, 2006, we granted stock options to employees, with an exercise price equal to the closing market price of our common stock on the date of grant and with cliff-vesting terms over four years, conditional on continuous employment with the Company. In addition, prior to April 1, 2006, we granted stock options to non-employee directors with an exercise price equal to the closing market price of our common stock on the date of grant and became exercisable over a period of one year based on monthly vesting terms, conditional on continuous service to the Company. There were no stock options granted since the beginning of fiscal 2007 or during the three months ended June 30, 2010.

We used the Black-Scholes option pricing model to determine the fair value of stock options granted prior to March 31, 2006. The fair value of each stock option granted was estimated on the date of the grant using the Black-Scholes option pricing model, based on a multiple option valuation approach. We have recognized compensation expense during the requisite service period of the stock option. As of June 30, 2010, we had no

unrecognized compensation expense related to stock options granted.

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Stock Option Activity

The following table summarizes information regarding options outstanding and options exercisable at June 30, 2010 and the changes during the three-month period then ended:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at March 31, 2010	720,000	$ 9.15		
Granted				
Exercised	(54,000)	5.92		
Canceled or forfeited				
Outstanding at June 30, 2010	666,000	$ 9.42	2.37	$ 8,033
Vested and expected to vest at June 30, 2010	666,000	$ 9.42	2.37	$ 8,033
Exercisable at June 30, 2010	666,000	$ 9.42	2.37	$ 8,033

The aggregate intrinsic value in the table above represents the pre-tax intrinsic value, based on our closing stock price as of June 30, 2010, that would have been received by the option holders had all option holders exercised their stock options as of that date. Total intrinsic value of stock options exercised during the three months ended June 30, 2010 and 2009 was $932,000 and $165,000, respectively. Cash proceeds from stock options exercised during the three months ended June 30, 2010 and 2009 were $324,000 and $38,000, respectively.

Restricted Stock Units

We grant restricted stock unit awards to employees and directors as part of our share-based compensation program which began in fiscal 2007. The restricted stock unit awards entitle holders to receive shares of common stock at the end of a specified period of time. Vesting for restricted stock unit awards is based on continuous employment or service of the holder. Upon vesting, the equivalent number of common shares are typically issued net of tax withholdings. If the vesting conditions are not met, unvested restricted stock unit awards will be forfeited. Generally, the restricted stock unit awards vest according to one of the following time-based vesting schedules:

Restricted stock unit awards to employees: Four-year time-based vesting as follows: five percent vesting after the first year; additional ten percent after the second year; additional 15 percent after the third year; and the remaining 70 percent after the fourth year of continuous employment with the Company.

Restricted stock unit awards to non-employee directors: 100 percent vesting after one year of continuous service to the Company.

Certain restricted stock unit awards granted to employees in fiscal 2007 may also be subject to accelerated vesting upon achieving certain performance-based milestones. Additionally, the Compensation Committee of our Board of Directors (the Compensation Committee), in its discretion, may provide in the event of a change in control for the acceleration of vesting and/or settlement of the restricted stock unit held by a participant upon such conditions and to such extent as determined by the Compensation Committee. Our Board of Directors has adopted an executive change in control severance plan, which it may terminate or amend at any time, that provides that awards granted to executive officers will accelerate fully on a change of control. The vesting of non-employee director awards granted under the Equity Incentive Plan automatically will also accelerate in full upon a change in control.

The fair value of restricted stock unit awards used in our expense recognition method is measured based on the number of shares granted and the closing market price of our common stock on the date of grant. Such value is

recognized as an expense over the corresponding requisite service period. The share-based compensation expense is reduced for an estimate of the restricted stock unit awards that are expected to be forfeited. The forfeiture estimate is based on historical data and other factors, and compensation expense is adjusted for actual results. As of June 30, 2010, the total unrecognized compensation expense related to restricted stock unit awards granted amounted to $16.9 million, which is expected to be recognized over a weighted average service period of 2.45 years.

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Restricted Stock Unit Activity

The following table summarizes restricted stock unit activity for the three months ended June 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value(1)
Unvested at March 31, 2010	864,000	$ 21.57
Granted	242,000	25.76
Vested(2)	(182,000)	23.90
Canceled or forfeited	(5,000)	23.59
Unvested at June 30, 2010	919,000	$ 22.20

(1) The weighted average grant date fair value of restricted stock units is based on the number of shares and the closing market price of our common stock on the date of grant.

(2) The number of restricted stock units vested includes shares that we withheld on behalf of our employees to satisfy the statutory tax withholding requirements.

Total intrinsic value of restricted stock units vested during the three months ended June 30, 2010 and 2009 was $4.7 million and $915,000, respectively. The total grant date fair value of restricted stock units vested during the three months ended June 30, 2010 and 2009 was $4.3 million and $1.4 million, respectively.

NOTE 10. NET INCOME PER SHARE

Basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income 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 using the treasury stock method. Dilutive potential common shares outstanding include outstanding stock options and restricted stock units.

The following is a reconciliation of the weighted average number of common shares outstanding used in calculating basic and diluted net income per share (in thousands, except share and per share data):

		Three Months Ended June 30,	
		2010	2009
Numerator:			
Net income		$ 3,580	$ 3,756
Denominator:			
Weighted average common shares outstanding	basic	22,211,000	21,965,000
Weighted average effect of dilutive securities:			
Stock options		349,000	368,000
Restricted stock units		190,000	24,000
Weighted average common shares outstanding	diluted	22,750,000	22,357,000
Net income per share:			
Basic net income per share		$ 0.16	$ 0.17
Diluted net income per share		$ 0.16	$ 0.17

We excluded the following stock options from the computation of diluted weighted average shares outstanding because the exercise price of the stock options is greater than the average market price of our common stock during the period and, therefore, the inclusion of these stock options would be antidilutive to net income per share:

	Three Months Ended June 30,	
	2010	2009
Weighted average number of shares underlying antidilutive stock options		176,000
Weighted average exercise price per share underlying antidilutive stock options	N/A	$ 21.34

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We excluded the following restricted stock units from the computation of diluted weighted average shares outstanding because the inclusion of these awards would be antidilutive to net income per share:

	Three Months Ended June 30,	
	2010	2009
Weighted average number of shares underlying antidilutive restricted stock units	234,000	400,000

NOTE 11. INCOME TAXES

During the three months ended June 30, 2010 and 2009, our income tax provision were $2.3 million, based on an effective tax rate of 39%, and $2.5 million, based on an effective tax rate of 40%, respectively. The decrease in the effective tax rate during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to a decrease in non-deductible compensation expense during the three months ended June 30, 2010.

We did not have any unrecognized tax benefits as of June 30, 2010 or June 30, 2009. During the three months ended June 30, 2010 and 2009, we did not recognize any interest or penalties related to unrecognized tax benefits.

NOTE 12. COMPREHENSIVE INCOME

The following is a summary of comprehensive income for the three months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,	
	2010	2009
Net income	$ 3,580	$ 3,756
Other comprehensive income:		
Change in unrealized gain (loss) on investments, net of tax		(11)
Comprehensive income	$ 3,580	$ 3,745

NOTE 13. SEGMENT REPORTING INFORMATION

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by our chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

Abaxis develops, manufactures, markets and sells portable blood analysis systems for use in the human or veterinary patient-care setting to provide clinicians with rapid blood constituent measurements. We identify our reportable segments as those customer groups that represent more than 10% of our combined revenue or gross profit or loss of all reported operating segments. We manage our business on the basis of the following two reportable segments: (i) the medical market and (ii) the veterinary market, which are based on the products sold by market and customer group. Each reportable segment has similar manufacturing processes, technology and shared infrastructures. The accounting policies for segment reporting are the same as for the Company as a whole. We do not segregate assets by segments since our chief operating decision maker does not use assets as a basis to evaluate a segment s performance.

Medical Market

In the medical market reportable segment, we serve a worldwide customer group consisting of military installations (ships, field hospitals and mobile care units), physicians office practices across all specialties, urgent care, outpatient and walk-in clinics (free-standing or hospital-connected), health screening operations, home care providers (national, regional or local), nursing homes, ambulance companies, oncology treatment clinics, dialysis centers, pharmacies, hospital labs and blood draw stations. The products manufactured and sold in this segment primarily consist of Piccolo chemistry analyzers and medical reagent discs.

Veterinary Market

In the veterinary market reportable segment, we serve a worldwide customer group consisting of companion animal hospitals, animal clinics with mixed practices of small animals, birds and reptiles, equine and bovine practitioners, veterinary emergency clinics, veterinary referral hospitals, universities, government, pharmaceutical companies, biotechnology companies and private research laboratories. The products manufactured and sold in this segment primarily consist of VetScan chemistry analyzers and veterinary reagent discs. We also sell OEM supplied products in this segment consisting of hematology instruments and related reagent kits, VetScan VS*pro* coagulation analyzers and related consumables, which we launched in our fourth quarter of fiscal 2009, canine heartworm rapid tests, which we launched in our fourth quarter of fiscal 2009, and i-STAT analyzers and related consumables, which we launched in our fiscal 2010.

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The table below summarizes revenues, cost of revenues and gross profit from our two operating segments and from certain unallocated items for the three months ended June 30, 2010 and 2009 (in thousands):

	Three Months Ended June 30,	
	2010	2009
Revenues:		
Medical Market	$ 6,438	$ 5,763
Veterinary Market	26,818	21,823
Other(1)	1,697	2,039
Total revenues	34,953	29,625
Cost of revenues:		
Medical Market	2,969	2,631
Veterinary Market	10,913	8,717
Other(1)	1,287	1,122
Total cost of revenues	15,169	12,470
Gross profit:		
Medical Market	3,469	3,132
Veterinary Market	15,905	13,106
Other(1)	410	917
Gross profit	$ 19,784	$ 17,155

(1) Represents unallocated items, not specifically identified to any particular business segment.

NOTE 14. REVENUES BY PRODUCT CATEGORY AND GEOGRAPHIC REGION AND SIGNIFICANT CONCENTRATIONS

Revenue Information

The following is a summary of our revenues by product category (in thousands):

	Three Months Ended June 30,	
Revenues by Product Category	2010	2009
Instruments(1)	$ 7,325	$ 6,277
Consumables(2)	25,318	20,905
Other products	1,869	1,639

Product sales, net	34,512	28,821
Development and licensing revenue	441	804
Total revenues	$ 34,953	$ 29,625

(1) Instruments include chemistry analyzers, hematology instruments, coagulation analyzers and i-STAT analyzers.

(2) Consumables include reagent discs, hematology reagent kits, coagulation cartridges, i-STAT cartridges and canine heartworm rapid tests.

The following is a summary of revenues by geographic region based on customer location (in thousands):

	Three Months Ended June 30,	
Revenues by Geographic Region	**2010**	**2009**
North America	$ 27,789	$ 24,111
Europe	5,627	4,395
Asia Pacific and rest of the world	1,537	1,119
Total revenues	$ 34,953	$ 29,625

Significant Concentrations

Revenues from significant customers as a percentage of total revenues were as follows:

		Three Months Ended June 30,	
Distributor	**Geographical Location**	**2010**	**2009**
Walco International, Inc., d/b/a DVM Resources	United States	<10%	10%

At June 30, 2010 and 2009, one distributor in the United States accounted for 12% and 19%, respectively, of our total receivables balance.

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

FORWARD-LOOKING STATEMENTS

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, intends, plans, future, projects, would, may, could, should, might, 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, in Part II, Item 1A of this report and in Part I, Item 1A of our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC), that could cause actual results to differ materially from historical results or those anticipated. Such risks and uncertainties include, but are not limited to, the market acceptance of our products and the continuing development of our products, regulatory clearance and approvals required by the United States Food and Drug Administration (FDA) and other government regulatory authorities, risks associated with manufacturing and distributing our products on a commercial scale, free of defects, risks related to the introduction of new instruments manufactured by third parties, risks associated with entering the human diagnostic market on a larger scale, risks related to the protection of Abaxis intellectual property or claims of infringement of intellectual property asserted by third parties, risks involved in carrying of inventory, risks associated with the ability to attract, train and retain competent sales personnel, 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.

BUSINESS OVERVIEW

Abaxis, Inc. develops, manufactures, markets and sells portable blood analysis systems for use in the human or veterinary patient-care setting to provide clinicians with rapid blood constituent measurements. Our primary product is a blood analysis system, consisting of a compact portable analyzer and a series of single-use plastic discs, called reagent discs, containing all the chemicals required to perform a panel of up to 14 tests on human patients and 13 tests on veterinary patients. We manufacture the system in our manufacturing facility in Union City, California and we market our blood chemistry analyzers in both the medical and the veterinary markets, as described below.

Medical Market: We currently market the blood analysis system in the medical market under the name Piccolo® Xpress. Through October 2006, we marketed the blood analysis system in the medical market as the Piccolo®, now referred to as the Piccolo Classic. We continue to support and service our current population of Piccolo Xpress and Piccolo Classic chemistry analyzers.

Veterinary Market: We currently market the blood analysis system in the veterinary market under the name VetScan VS2®. Through March 2006, we marketed the blood analysis system in the veterinary market as the VetScan®, now referred to as the VetScan Classic. We continue to support and service our current population of VetScan VS2 and VetScan Classic chemistry analyzers.

In September 2007, we introduced a veterinary hematology instrument under the name VetScan HM5. The VetScan HM5 offers a 22-parameter complete blood count (CBC) analysis, including a five-part differential cell counter specifically designed for veterinary applications. In May 2004, we introduced a veterinary hematology instrument that offers an 18-parameter CBC analysis, including a three-part white blood cell differential, marketed originally as the VetScan HMII, and is now referred to as the VetScan HM2. We currently purchase the hematology instruments from Diatron MI PLC of Budapest, Hungary. Through April 2004, we marketed a veterinary hematology instrument under the name VetScan HMT. We continue to support and service our current population of VetScan HM5, VetScan HM2, VetScan HMII and VetScan HMT hematology instruments. We also market reagent kits to be used with our hematology instruments which we currently purchase from two suppliers: Clinical Diagnostic Solutions, Inc. and Diatron MI PLC.

In July 2008, our sales office in Darmstadt, Germany was incorporated as Abaxis Europe GmbH to market, promote and distribute diagnostic systems for medical and veterinary uses. As a result, Abaxis Europe GmbH became a wholly-owned subsidiary of Abaxis. The subsidiary was formed to provide customer support in a timely manner in

response to the growing and increasingly diverse services needs of customers in the European market.

In January 2009, we introduced a veterinary coagulation analyzer under the name VetScan VS*pro*. The VetScan VS*pro* assists in the diagnosis and evaluation of suspected bleeding disorders, toxicity/poisoning, evaluation of Disseminated Intravascular Coagulation, hepatic disease and monitoring therapy and progression of disease states. The point-of-care coagulation analyzer is offered with a combination assay (PT/aPTT test cartridge) for canine testing. We currently purchase the coagulation analyzers and coagulation cartridges from Scandinavian Micro Biodevices APS of Farum, Denmark.

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In January 2009, we introduced a canine heartworm rapid test under the name VetScan Canine Heartworm Rapid Test. The VetScan Canine Heartworm Rapid Test is a highly sensitive and specific test for the detection of *Dirofilaria immitis* in canine whole blood, serum or plasma. The lateral flow immunoassay technology in the canine heartworm rapid tests provides immediate results.

In May 2009, we entered into an exclusive agreement with Abbott Point of Care Inc., granting us the right to sell and distribute Abbott s i-STAT® 1 handheld instrument (i-STAT 1 analyzer) and associated consumables for blood gas, electrolyte, basic blood chemistry and immunoassay testing in the animal health care market worldwide. Our right to sell and distribute these products was initially non-exclusive, but became exclusive in all countries of the world, except for Japan, on November 1, 2009. Our rights in Japan remain non-exclusive for the term of the agreement. The initial term of the agreement ends on December 31, 2014, and after this initial term, our agreement continues automatically for successive one-year periods unless terminated by either party. We started marketing and sales activities of the i-STAT cartridges in the first quarter of fiscal 2010. In the second quarter of fiscal 2010, we started marketing and sales activities of the i-STAT instrument. We launched an Abaxis-branded version of the i-STAT 1 instrument as part of our VetScan line in the third quarter of fiscal 2010.

Our sales for any future periods are not predictable with a significant degree of certainty, and may depend on a number of factors outside of our control, including but not limited to inventory or timing considerations by our distributors. We generally operate with a limited order backlog because our products are typically 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. In addition, 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 the sales volumes of our Piccolo and VetScan products and to successfully compete with other competitors. We believe that period to period comparisons of our results of operations are not necessarily meaningful indicators of future results.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and pursuant to the rules and regulations of the Securities and Exchange Commission. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and the sensitivity of these estimates to deviations in the assumptions used in making them. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. However, there can be no assurance that our actual results will not differ from these estimates.

We have identified the policies below as critical because they are not only important to understanding our financial condition and results of operations, but also because application and interpretation of these policies requires both judgment and estimates of matters that are inherently uncertain and unknown. Accordingly, actual results may differ materially from our estimates. The impact and any associated risks related to these policies on our business operations are discussed below. A more detailed discussion on the application of these and other accounting policies are included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

Revenue Recognition and Deferred Revenue. Our primary customers are distributors and direct customers in both the medical and veterinary markets. Revenues from product sales, net of estimated sales allowances and rebates, are recognized when (i) evidence of an arrangement exists, (ii) upon shipment of the products to the customer, (iii) the sales price is fixed or determinable and (iv) collection of the resulting receivable is reasonably assured. Rights of return are not provided.

We recognize revenue associated with extended maintenance agreements ratably over the life of the contract. Amounts collected in advance of revenue recognition are recorded as a current or non-current liability based on the time from the balance sheet date to the future date of revenue recognition. We provide incentives in the form of free goods or extended maintenance agreements to customers in connection with the sale of our instruments. Revenues

from such sales are allocated separately to the instruments and incentives based on the relative fair value of each element. Revenues allocated to incentives are deferred until the goods are shipped to the customer or are recognized ratably over the life of the maintenance contract.

We periodically offer trade-in programs to customers for trading in an existing instrument to purchase a new instrument and we will either provide incentives in the form of free goods or reduce the sales price of the instrument. These incentives in the form of free goods are recorded according to the policies described above.

We periodically offer programs to customers whereby certain instruments are made available to customers for rent or on an evaluation basis. These programs typically require customers to purchase a minimum quantity of consumables during a specified period for which we recognize revenue on the related consumables according to the policies described above. Depending on the program offered, customers may purchase the instrument during the rental or evaluation period. Proceeds from such sale are recorded as revenue according to the policies described above. Rental income, if any, are also recorded as revenue according to the policies described above.

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Royalties are typically based on licensees net sales of products that utilize our technology and are recognized as earned in accordance with the contract terms when royalties from licensees can be reliably measured and collectibility is reasonably assured, such as upon the receipt of a royalty statement from the licensee. Our royalty revenue depends on the licensees use of our technology, and therefore, may vary from period to period and impact our revenues during a quarter.

Distributor and Customer Rebates. We offer distributor pricing rebates and customer incentives from time to time. The distributor pricing rebates are offered to distributors upon meeting the sales volume requirements during a qualifying period. The distributor pricing rebates are recorded as a reduction to gross revenues during a qualifying period. Cash rebates are offered to distributors or customers who purchase certain products or instruments during a promotional period. Cash rebates are recorded as a reduction to gross revenues.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts based on our assessment of the collectibility of the amounts owed to us by our customers. In determining the amount of the allowance, we make judgments about the creditworthiness of customers which is mostly determined by the customer s payment history and the outstanding period of accounts. We specifically identify amounts that we believe to be uncollectible and the allowance for doubtful accounts is adjusted accordingly. An additional allowance is recorded based on certain percentages of our aged receivables, using historical experience to estimate the potential uncollectible and our assessment of the general financial condition of our customer base. If our actual collections experience changes, revisions to our allowances may be required, which could adversely affect our operating income.

Fair Value Measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosure, establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity s own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. As of June 30, 2010, we used Level 1 assumptions for our cash equivalents, which are traded in an active market. The valuations are based on quoted prices of the underlying security that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required.

Level 2: Directly or indirectly observable inputs as of the reporting date through correlation with market data, including quoted prices for similar assets and liabilities in active markets and quoted prices in markets that are not active. Level 2 also includes assets and liabilities that are valued using models or other pricing methodologies that do not require significant judgment since the input assumptions used in the models, such as interest rates and volatility factors, are corroborated by readily observable data from actively quoted markets for substantially the full term of the financial instrument. As of June 30, 2010, we did not have any Level 2 financial assets or liabilities measured at fair value on a recurring basis.

Level 3: Unobservable inputs that are supported by little or no market data and require the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management s estimates of market participant assumptions. As of June 30, 2010, we did not have any Level 3 financial assets or liabilities measured at fair value on a recurring basis.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are developed to reflect those that market participants would use in pricing the asset or liability at the measurement date. At June 30, 2010, our short-term investments totaled $28.5 million and our long-term investments totaled $33.5 million, which were classified as held-to-maturity and carried at amortized cost.

Warranty Reserves. We provide for the estimated future costs to be incurred under our standard warranty obligation on our instruments. Our standard warranty obligation on instruments ranges from one to three years. The estimated

contractual warranty obligation is recorded when the related revenue is recognized and any additional amount is recorded when such cost is probable and can be reasonably estimated. Cost of revenues reflects estimated warranty expense for instruments sold in the current period and any adjustments in estimated warranty expense for the installed base under our standard warranty obligation based on our quarterly evaluation of service experience. While we engage in product quality programs and processes, including monitoring and evaluating the quality of our suppliers, our estimated accrual for warranty exposure is based on our historical experience as to product failures, estimated product failure rates, estimated repair costs, material usage and freight incurred in repairing the instrument after failure and known design changes under the warranty plan.

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Each quarter, we reevaluate our estimate of warranty reserves, including our assumptions. During the three months ended June 30, 2010, we recorded an adjustment to pre-existing warranties of $307,000, which reduced our warranty reserves and our cost of revenues, based on both a decrease in our historical experience as to product failures and our judgment of a decrease in estimated product failure rates of blood chemistry analyzers since we began taking steps to resolve manufacturing problems primarily from fiscal 2008 related to quality control for key components that we obtain from our suppliers and to design issues of the key components required.

Our current portion of warranty reserves of $942,000 as of June 30, 2010 and non-current portion of warranty reserves of $72,000 as of June 30, 2010 reflects our estimate of warranty obligations based on the number of instruments in standard warranty, estimated product failure rates and estimated repair costs.

A provision for defective reagent discs is recorded when the related sale is recognized and any additional amount is recorded when such cost is probable and can be reasonably estimated, at which time they are included in cost of revenues. The warranty cost includes the replacement costs and freight of a defective reagent disc.

We review the historical warranty cost trends and analyze the adequacy of the ending accrual balance of warranty reserves each quarter. The determination of warranty reserves requires us to make estimates of the estimated product failure rate, expected costs to repair or replace the instruments and to replace defective reagent discs under warranty. If actual repair or replacement costs of instruments or replacement costs of reagent discs differ significantly from our estimates, adjustments to cost of revenues may be required. Additionally, if factors change and we revise our assumptions on the product failure rate of instruments or reagent discs, then our warranty reserves and cost of revenues could be materially impacted in the quarter of revision, as well as in following quarters.

Inventories. We state inventories at the lower of cost or market, cost being determined using standard costs which approximate actual costs using the first-in, first-out (FIFO) method. Inventories include material, labor and overhead. We establish provisions for excess, obsolete and unusable inventories after evaluation of future demand and market conditions. If future demand or actual market conditions are less favorable than those estimated by management or if a significant amount of the material were to become unusable, additional inventory write-downs may be required, which would have a negative effect on our operating income.

Valuation of Long-Lived Assets. We evaluate the carrying value of our long-lived assets, such as property and equipment and amortized intangible assets, whenever events or changes in business circumstances or our planned use of long-lived assets indicate that the carrying amount of an asset may not be fully recoverable or their useful lives are no longer appropriate. We look to current and future profitability, as well as current and future undiscounted cash flows, excluding financing costs, as primary indicators of recoverability. An impairment loss would be recognized when the sum of the undiscounted future net cash flows expected to result from the use of the asset and its eventual disposal is less than the carrying amount. If impairment is determined to exist, any related impairment loss is calculated based on fair value and long-lived assets are written down to their respective fair values.

Income Taxes. We account for income taxes using the liability method under which deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amounts to be recovered.

We recognize and measure benefits for uncertain tax positions using a two-step approach. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of evidence indicates that it is more likely than not that the tax position will be sustained upon audit, including resolution of any related appeals or litigation processes. For tax positions that are more likely than not to be sustained upon audit, the second step is to measure the tax benefit as the largest amount that is more than 50 percent likely to be realized upon settlement. Significant judgment is required to evaluate uncertain tax positions. At June 30, 2010 and 2009, we had no uncertain tax positions. Our policy is to include interest and penalties related to gross unrecognized tax benefits within our provision for income taxes. During the three months ended June 30, 2010 and 2009, we did not recognize any interest or penalties related to uncertain tax positions in the condensed consolidated statements of income, and at June 30, 2010 and 2009, we had no accrued interest or penalties.

Share-Based Compensation Expense. We recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award to employees and directors.

We did not grant stock options during fiscal 2010 or during the three months ended June 30, 2010. For stock options granted prior to March 31, 2006, we use the Black-Scholes option pricing model to determine the fair value. Determining the appropriate fair value model and calculating the fair value of share-based awards requires highly subjective assumptions, including risk-free interest rate, expected stock price volatility, expected term and expected dividends.

For restricted stock units, share-based compensation expense is based on the fair value of our stock at the grant date. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

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As required by fair value provisions of share-based compensation, employee share-based compensation expense recognized is calculated over the requisite service period of the awards and reduced for estimated forfeitures. The forfeiture rate is estimated based on historical data of our share-based compensation awards that are granted and cancelled prior to vesting and upon historical experience of employee turnover. Changes in estimated forfeiture rates and differences between estimated forfeiture rates and actual experience may result in significant, unanticipated increases or decreases in share-based compensation expense from period to period. To the extent we revise our estimate of the forfeiture rate in the future, our share-based compensation expense could be materially impacted in the quarter of revision, as well as in following quarters.

Share-based compensation expense resulted in a material impact on our earnings per share and on our condensed consolidated financial statements for fiscal 2010 and during the three months ended June 30, 2010. The impact of share-based compensation expense on our condensed consolidated financial results is disclosed in Note 9, Share-Based Compensation in the Notes to Condensed Consolidated Financial Statement in this Quarterly Report on Form 10-Q. We expect that share-based compensation will materially impact our consolidated financial statements in the foreseeable future.

RESULTS OF OPERATIONS

Abaxis develops, manufactures, markets and sells portable blood analysis systems for use in the human or veterinary patient-care setting to provide clinicians with rapid blood constituent measurements. We operate in two segments: (i) the medical market and (ii) the veterinary market. See Segment Results in this section for a detailed discussion.

Total Revenues

Revenues by Geographic Region and by Product Category. Revenues by geographic region based on customer location and revenues by product category during the three months ended June 30, 2010 and 2009 were as follows (in thousands, except percentages):

	Three Months Ended June 30,		Change	
Revenues by Geographic Region	**2010**	**2009**	**Increase/ (Decrease)**	**Percent Change**
North America	$ 27,789	$ 24,111	$ 3,678	15%
Percentage of total revenues	80%	81%		
Europe	5,627	4,395	1,232	28%
Percentage of total revenues	16%	15%		
Asia Pacific and rest of the world	1,537	1,119	418	37%
Percentage of total revenues	4%	4%		
Total revenues	$ 34,953	$ 29,625	$ 5,328	18%

	Three Months Ended June 30,		Change	
Revenues by Product Category	**2010**	**2009**	**Increase/ (Decrease)**	**Percent Change**
Instruments(1)	$ 7,325	$ 6,277	$ 1,048	17%
Percentage of total revenues	21%	21%		
Consumables(2)	25,318	20,905	4,413	21%
Percentage of total revenues	73%	71%		
Other products	1,869	1,639	230	14%
Percentage of total revenues	5%	5%		
Product sales, net	34,512	28,821	5,691	20%

Percentage of total revenues	99%	97%		
Development and licensing revenue	441	804	(363)	(45)%
Percentage of total revenues	1%	3%		
Total revenues	$ 34,953	$ 29,625	$ 5,328	18%

(1) Instruments include chemistry analyzers, hematology instruments, coagulation analyzers and i-STAT analyzers.

(2) Consumables include reagent discs, hematology reagent kits, coagulation cartridges, i-STAT cartridges and canine heartworm rapid tests.

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Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

North America. During the three months ended June 30, 2010, total revenues in North America increased 15%, or $3.7 million, as compared to the three months ended June 30, 2009. The change in total revenues in North America was attributed to the following:

- Sales of our Piccolo chemistry analyzers in North America (excluding the U.S. government) increased 28%, or $167,000, primarily due to an increase in sales to distributors during the three months ended June 30, 2010.
- Sales of our Piccolo chemistry analyzers to the U.S. government decreased by 70%, or $488,000, primarily due to a decrease in the U.S. Military s needs for our products in the first quarter of fiscal 2011, which were not predictable.
- Medical reagent discs sales in North America (excluding the U.S. government) increased 16%, or $475,000, primarily due to an increase in units sold resulting from an expanded installed base of our Piccolo chemistry analyzers.
- Sales of our VetScan chemistry analyzers in North America increased 17%, or $259,000, primarily due to higher average selling prices during the three months ended June 30, 2010.
- Veterinary reagent discs sales in North America increased 4%, or $431,000, primarily due to higher average selling prices during the three months ended June 30, 2010.
- Total sales of our VetScan hematology instruments and hematology reagent kits in North America increased 15%, or $362,000, during the three months ended June 30, 2010. The increase was primarily attributed to (a) an increase in units of VetScan hematology instruments sold due to increased selling activities during the three months ended June 30, 2010 and (b) an increase in units of hematology reagent kits sold resulting from an expanded installed base of our VetScan hematology instruments.
- Total sales from our original equipment manufacturer (OEM) supplied products increased $2.8 million during the three months ended June 30, 2010 in North America as we began sales and marketing activities for our VetScan VS*pro* coagulation analyzers and related consumables and canine heartworm rapid tests in the fourth quarter of fiscal 2009 and for our i-STAT analyzers and related consumables in fiscal 2010.
- Total revenues from development and licensing in North America decreased 45%, or $363,000, during the three months ended June 30, 2010, primarily based on the licensees use of our technology, which varies from period to period.

Europe. During the three months ended June 30, 2010, total revenues in Europe increased 28%, or $1.2 million, as compared to the three months ended June 30, 2009. The change in total revenues in Europe was attributed to the following:

- Sales of our Piccolo chemistry analyzers in Europe increased 156%, or $375,000, primarily due to our promotion strategy and increased sales to distributors during the three months ended June 30, 2010.
- Sales of our VetScan chemistry analyzers in Europe decreased 20%, or $173,000, primarily due to the timing of inventory purchases by our distributors during the three months ended June 30, 2010.
- Veterinary reagent discs sales in Europe increased 28%, or $686,000, primarily due to an increase in units sold resulting from an expanded installed base of our VetScan chemistry analyzers.

Asia Pacific and rest of the world. During the three months ended June 30, 2010, total revenues in Asia Pacific and rest of the world increased 37%, or $418,000, as compared to the three months ended June 30, 2009. The change in total revenues in Asia Pacific and rest of the world was attributed to the following:

- Total sales of our VetScan hematology instruments and hematology reagent kits in Asia Pacific and rest of the world increased 100%, or $207,000, primarily due to increased sales to a distributor.
- Total sales from our OEM supplied products increased $203,000 during the three months ended June 30, 2010 in Asia Pacific and rest of the world, primarily due to the commencement of sales and marketing activities for our i-STAT analyzers and related consumables in fiscal 2010.

Significant concentration. There were no distributors or direct customers that accounted for more than 10% of our total worldwide revenues during the three months ended June 30, 2010. One distributor in the United States, DVM Resources, accounted for 10% of our total worldwide revenues during the three months ended June 30, 2009.

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Segment Results

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The following table presents revenues, cost of revenues, gross profit and percent of revenues by operating segments for the three months ended June 30, 2010 and 2009 (in thousands, except percentages):

	Three Months Ended June 30,				Change	
	2010	Percent of Revenues(1)	2009	Percent of Revenues(1)	Increase/ (Decrease)	Percent Change
Revenues:						
Medical Market	$ 6,438	100%	$ 5,763	100%	$ 675	12%
Percentage of total revenues	18%		19%			
Veterinary Market	26,818	100%	21,823	100%	4,995	23%
Percentage of total revenues	77%		74%			
Other(2)	1,697		2,039		(342)	(17)%
Percentage of total revenues	5%		7%			
Total revenues	34,953		29,625		5,328	18%
Cost of revenues:						
Medical Market	2,969	46%	2,631	46%	338	13%
Veterinary Market	10,913	41%	8,717	40%	2,196	25%
Other(2)	1,287		1,122		165	15%
Total cost of revenues	15,169		12,470		2,699	22%
Gross profit:						
Medical Market	3,469	54%	3,132	54%	337	11%
Veterinary Market	15,905	59%	13,106	60%	2,799	21%
Other(2)	410		917		(507)	(55)%
Gross profit	$ 19,784		$ 17,155		$ 2,629	15%

(1) The percentages reported are based on our revenues by operating segment.

(2) Represents unallocated items, not specifically identified to any particular business

segment.

Medical Market

Revenues for Medical Market Segment

During the three months ended June 30, 2010, total revenues in the medical market increased 12%, or $675,000, as compared to the three months ended June 30, 2009. Components of the change were as follows:

Instruments. Total revenues from Piccolo chemistry analyzers increased 2%, or $34,000, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase in revenues was attributed to (a) an increase in revenues in North America (excluding the U.S. government) of 28%, or $167,000, primarily due to an increase in sales to distributors during the three months ended June 30, 2010, and (b) an increase in revenues in Europe of 156%, or $375,000, primarily due to our promotion strategy and increased sales to distributors during the three months ended June 30, 2010. The net increase in revenues was partially offset by a decrease in Piccolo chemistry analyzers sold to the U.S. government of 70%, or $488,000, primarily due to a decrease in the U.S. Military s needs for our products in the first quarter of fiscal 2011, which were not predictable.

Consumables. Total revenues from medical reagent discs increased 13%, or $532,000, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase in revenues was primarily attributed to an increase in revenues in North America (excluding the U.S. government) of 16%, or $475,000, primarily due to an increase in units sold resulting from an expanded installed base of our Piccolo chemistry analyzers.

Gross Profit for Medical Market Segment

Gross profit for the medical market segment increased 11%, or $337,000, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Gross profit percentages for the medical market segment during the three months ended June 30, 2010 and 2009 were 54% and 54%, respectively. In absolute dollars, the increase in gross profit for the medical market segment was primarily due to (a) an increase in units of Piccolo chemistry analyzers and medical reagent discs sold during the three months ended June 30, 2010, and (b) lower manufacturing costs on Piccolo chemistry analyzers during the three months ended June 30, 2010. The net increase in revenues was partially offset by lower average selling prices of medical reagent discs during the three months ended June 30, 2010.

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Veterinary Market

Revenues for Veterinary Market Segment

During the three months ended June 30, 2010, total revenues in the veterinary market increased 23%, or $5.0 million, as compared to the three months ended June 30, 2009. Total revenues from veterinary instruments increased 22%, or $1.0 million, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Total revenues from consumables in the veterinary market increased 23%, or $3.9 million, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Components of the change were as follows:

Sales of our VetScan chemistry analyzers increased 2%, or $62,000, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase in revenues was primarily attributed to an increase in revenues in North America of 17%, or $259,000, primarily due to higher average selling prices during the three months ended June 30, 2010. The net increase in revenues was partially offset by a decrease in revenues in Europe by 20%, or $173,000, primarily due to the timing of inventory purchases by our distributors during the three months ended June 30, 2010.

Total revenues from veterinary reagent discs increased 8%, or $1.2 million, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase in revenues was primarily attributed to (a) an increase in revenues in North America of 4%, or $431,000, primarily due to higher average selling prices during the three months ended June 30, 2010, and (b) an increase in revenues in Europe of 28%, or $686,000, primarily due to an increase in units sold resulting from an expanded installed base of our VetScan chemistry analyzers.

Total sales of our VetScan hematology instruments and hematology reagent kits increased 19%, or $550,000, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. The increase in revenues was primarily attributed to (a) an increase in revenues in North America of 15%, or $362,000, which was primarily attributed to (i) an increase in units of VetScan hematology instruments sold due to increased selling activities during the three months ended June 30, 2010 and (ii) an increase in units of hematology reagent kits sold resulting from an expanded installed base of our VetScan hematology instruments, and (b) an increase in revenues in Asia Pacific and rest of the world of 100%, or $207,000, primarily due to increased sales to a distributor.

Total sales from our OEM supplied products increased $3.1 million during the three months ended June 30, 2010, primarily in North America as we began sales and marketing activities for our VetScan VS*pro* coagulation analyzers and related consumables and canine heartworm rapid tests in the fourth quarter of fiscal 2009 and for our i-STAT analyzers and related consumables in fiscal 2010.

Gross Profit for Veterinary Market Segment

Gross profit for the veterinary market segment increased 21%, or $2.8 million, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009. Gross profit percentages for the veterinary market segment during the three months ended June 30, 2010 and 2009 were 59% and 60%, respectively. In absolute dollars, the increase in gross profit for the veterinary market segment was primarily due to (a) an increase in units of veterinary reagent discs sold during the three months ended June 30, 2010, (b) an increase in units of VetScan hematology instruments sold during the three months ended June 30, 2010, (c) sales of our i-STAT analyzers and related consumables (launched in fiscal 2010), and (d) lower manufacturing costs on VetScan chemistry analyzers and lower unit costs from suppliers of our VetScan hematology instruments during the three months ended June 30, 2010.

Cost of Revenues

The following sets forth our cost of revenues for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
Cost of revenues	$ 15,169	$ 12,470	$ 2,699	22%

Percentage of total revenues	43%	42%

Cost of revenues includes the costs associated with manufacturing, assembly, packaging, warranty repairs, test and quality assurance for our instruments and consumables and manufacturing overhead, including costs of personnel and equipment associated with manufacturing support.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The increase in cost of revenues, in absolute dollars, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to sales of our i-STAT analyzers and related consumables, as we began sales and marketing activities in fiscal 2010. As a percentage of total revenues, the increase in cost of revenues during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to a pricing promotion by our supplier of i-STAT consumables during the three months ended June 30, 2009.

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Gross Profit

The following sets forth our gross profit for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
Total gross profit	$ 19,784	$ 17,155	$ 2,629	15%
Total gross margin	57%	58%		

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Gross profit during the three months ended June 30, 2010 increased 15%, or $2.6 million, as compared to the three months ended June 30, 2009, primarily due to the following: (a) an increase in units of Piccolo chemistry analyzers, VetScan hematology instruments, and medical and veterinary reagent discs sold during the three months ended June 30, 2010, (b) sales of our i-STAT analyzers and related consumables (launched in fiscal 2010), (c) lower manufacturing costs on Piccolo and VetScan chemistry analyzers during the three months ended June 30, 2010, and (d) lower unit costs from suppliers of our hematology instruments during the three months ended June 30, 2010. The net increase in gross profit was partially offset by lower average selling prices of medical reagent discs. As a percentage, the decrease in gross margin during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to a pricing promotion by our supplier of i-STAT consumables during the three months ended June 30, 2009.

Operating Expenses

Research and Development

The following sets forth our research and development expenses for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
Research and development expenses	$ 3,078	$ 2,573	$ 505	20%
Percentage of total revenues	9%	9%		

Research and development expenses consist of personnel costs (including salaries, benefits and share-based compensation expense), consulting expenses and materials and related expenses associated with the development of new tests and test methods, clinical trials, product improvements and optimization and enhancement of existing products.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The increase in research and development expenses, in absolute dollars, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to new product development and enhancement of existing products and clinical trials. Research and development expenses are based on the project activities planned and the level of spending depends on budgeted expenditures. The projects primarily relate to new product development in both the medical and veterinary markets and costs related to compliance with FDA regulations and clinical trials. Share-based compensation expense during the three months ended June 30, 2010 and 2009 was $339,000 and $140,000, respectively.

We anticipate the dollar amount of research and development expenses to increase in fiscal 2011 from fiscal 2010 but remain consistent as a percentage of total revenues, as we complete new products for both the medical and veterinary markets. 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.

Sales and Marketing

The following sets forth our sales and marketing expenses for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
Sales and marketing expenses	$ 8,633	$ 6,360	$ 2,273	36%
Percentage of total revenues	25%	21%		

Sales and marketing expenses consist of personnel costs (including salaries, benefits and share-based compensation expense), commissions and travel-related expenses for personnel engaged in selling, costs associated with advertising, lead generation, marketing programs, trade shows and services related to customer and technical support.

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Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The increase in sales and marketing expenses, in absolute dollars, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to personnel-related costs resulting from (a) an increase in headcount in various divisions, including sales and marketing, customer service and technical service, to support the growth in both our medical and veterinary markets and (b) an increase in commission and bonus expenses, which are based on the achievement of established goals. Share-based compensation expense during the three months ended June 30, 2010 and 2009 was $494,000 and $245,000, respectively.

General and Administrative

The following sets forth our general and administrative expenses for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
General and administrative expenses	$ 2,124	$ 2,498	$ (374)	(15)%
Percentage of total revenues	6%	8%		

General and administrative expenses consist of personnel costs (including salaries, benefits and share-based compensation expense), and expenses for outside professional services related to general corporate functions, including accounting, human resources and legal.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The decrease in general and administrative expenses, in absolute dollars, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to lower personnel-related costs resulting from a decrease in share-based compensation expense since forfeiture estimates were adjusted to reflect actual forfeitures when an award vests during the three months ended June 30, 2010. Share-based compensation expense during the three months ended June 30, 2010 and 2009 was $156,000 and $462,000, respectively.

Interest and Other Income (Expense), Net

The following sets forth our interest and other income (expense), net, for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,		Change	
	2010	2009	Increase/ (Decrease)	Percent Change
Interest and other income (expense), net	$ (105)	$ 514	$ (619)	*

* Percentage is not meaningful.

Interest and other income (expense), net consists primarily of interest earned on cash and cash equivalents, investments and foreign currency exchange gains and losses.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

The decrease in interest and other income (expense), net, during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily attributed to unfavorable foreign currency exchange rates, compared to the same period in fiscal 2010.

Income Tax Provision

The following sets forth our income tax provision for the periods indicated (in thousands, except percentages):

	Three Months Ended June 30,	
	2010	2009
Income tax provision	$ 2,264	$ 2,482

Effective tax rate	39%	40%

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

During the three months ended June 30, 2010 and 2009, our income tax provision were $2.3 million, based on an effective tax rate of 39%, and $2.5 million, based on an effective tax rate of 40%, respectively. The decrease in the effective tax rate during the three months ended June 30, 2010, as compared to the three months ended June 30, 2009, was primarily due to a decrease in non-deductible compensation expense during the three months ended June 30, 2010. We did not have any unrecognized tax benefits as of June 30, 2010 or June 30, 2009. During the three months ended June 30, 2010 and 2009, we did not recognize any interest or penalties related to unrecognized tax benefits.

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LIQUIDITY AND CAPITAL RESOURCES

Total cash, cash equivalents and short-term and long-term investments at June 30, 2010 and March 31, 2010 were as follows (in thousands, except percentages):

	June 30, 2010	March 31, 2010
Cash and cash equivalents	$ 36,348	$ 27,857
Short-term investments	28,500	32,343
Long-term investments	33,529	36,319
Total cash, cash equivalents and investments	$ 98,377	$ 96,519
Percentage of total assets	59%	58%

Cash Flow Changes

Cash provided by (used in) the three months ended June 30, 2010 and 2009 were as follows (in thousands):

	Three Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	$ 3,926	$ 6,365
Net cash provided by (used in) investing activities	5,723	(8,714)
Net cash used in financing activities	(829)	(59)
Effect of exchange rate changes on cash and cash equivalents	(329)	39
Net increase (decrease) in cash and cash equivalents	$ 8,491	$ (2,369)

At June 30, 2010, we had net working capital of $96.2 million compared to $89.3 million at March 31, 2010. Cash and cash equivalents at June 30, 2010 were $36.3 million compared to $27.9 million at March 31, 2010. The increase in cash and cash equivalents during the three months ended June 30, 2010 was primarily due to net cash provided by operating activities of $3.9 million and proceeds from maturities and redemptions of investments of $21.2 million, partially offset by purchases of investments of $14.7 million and tax withholdings related to net share settlements of restricted stock units of $1.6 million.

Operating Activities

During the three months ended June 30, 2010, we generated $3.9 million in cash from operating activities, compared to $6.4 million during the three months ended June 30, 2009. The cash provided by operating activities during the three months ended June 30, 2010 was primarily the result of net income of $3.6 million, adjusted for the effects of non-cash adjustments including depreciation and amortization of $1.1 million and share-based compensation expense of $1.1 million, partially offset by a decrease of $409,000 related to excess tax benefits from share-based awards.

Other changes in operating activities during the three months ended June 30, 2010 were as follows:

(i) Inventories decreased by $1.9 million, from $19.1 million at March 31, 2010 to $17.2 million as of June 30, 2010, primarily due to a decrease in inventory purchases related to consumables during the first quarter of 2011.

(ii) Prepaid expenses and other current assets decreased by $406,000, from $1.6 million at March 31, 2010 to $1.2 million as of June 30, 2010, primarily due to the timing of payments.

(iii) Accounts payable decreased by $4.7 million, from $9.4 million at March 31, 2010 to $4.7 million as of June 30, 2010, primarily due to the timing and payment of services and inventory purchases.

(iv) Accrued payroll and related expenses decreased by $379,000, from $5.6 million at March 31, 2010 to $5.2 million as of June 30, 2010, primarily due to the timing of payment of accrued payroll in the first quarter of fiscal 2011.

(v) Accrued taxes increased by $1.2 million, from $400,000 at March 31, 2010 to $1.6 million as of June 30, 2010, primarily due to the timing of federal, state and foreign estimated tax payments payable during the quarter ended June 30, 2010.

(vi) Total warranty reserves decreased by $329,000, resulting from a decrease in the current portion of warranty reserves of $241,000, from $1.2 million at March 31, 2010 to $942,000 as of June 30, 2010, and a decrease in the non-current portion of warranty reserves of $88,000, from $160,000 at March 31, 2010 to $72,000 as of June 30, 2010. The net change in warranty reserves is based on (a) the number of instruments in standard warranty and estimated repair costs and (b) an estimate of defective reagent discs and replacement costs. In the first quarter of fiscal 2011, total warranty reserves for instruments decreased based on both our historical experience and estimated product failure rates of blood chemistry analyzers since we began taking steps to resolve manufacturing problems, primarily related to quality control for key components that we obtain from our suppliers and to design issues of the key components required.

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We anticipate that we will incur incremental additional costs to support our future operations, including further additional pre-clinical testing and clinical trials for our current and future products; research and design costs related to the continuing development of our current and future products; and acquisition of capital equipment for our manufacturing facility, which includes the ongoing costs related to the continuing development of our current and future products.

Investing Activities

Net cash provided by investing activities during the three months ended June 30, 2010 totaled $5.7 million, compared to net cash used in investing activities of $8.7 million during the three months ended June 30, 2009. Changes in investing activities were as follows:

Investments. Cash used to purchase investments in certificates of deposits and U.S. agency securities totaled $14.7 million during the three months ended June 30, 2010. Cash provided by proceeds from maturities and redemptions of investments in certificates of deposits, municipal bonds and U.S. agency securities totaled $21.2 million during the three months ended June 30, 2010.

Property and Equipment. Cash used to purchase property and equipment totaled $815,000 during the three months ended June 30, 2010, primarily to support (a) new product introduction, (b) increased capacity requirements in our production line and (c) increase in transfers of instruments from inventory and held for loan or evaluation or demonstration purposes to support our customer base. We anticipate that we will continue to purchase property and equipment as necessary in the normal course of our business.

Financing Activities

Net cash used in financing activities during the three months ended June 30, 2010 totaled $829,000, primarily due to tax withholdings related to net share settlements of restricted stock units of $1.6 million, partially offset by proceeds from the exercise of stock options of $324,000 and excess tax benefits from share-based awards of $409,000.

Contractual Obligations

Facilities Lease. In March 2010, we entered into the Fourth Amendment to Lease Agreement with Whipple Road Holdings, LLC, SFP Crossroads, LLC and Woodstock Bowers, LLC (collectively, the Landlord) (the Lease Amendment) related to our principal facility in Union City, California. Under the Lease Amendment, the lease term was extended from December 2010 to February 2021. In connection with the Lease Amendment, our obligation to provide a letter of credit, which was secured by our line of credit, on our facility terminated in April 2010 (see Note 7 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for further information). Additionally, pursuant to the Lease Amendment, the Landlord agreed to lease us certain expansion premises consisting of approximately 35,239 rentable square feet in Union City, California (the Expansion Premises). In May 2010, the Landlord tendered possession of the Expansion Premises to us. The monthly base rental rate for the Expansion Premises shall be abated for the first three months after May 2010 and thereafter increase to $0.800 per rentable square foot of the Expansion Premises ($28,191.20 per month), which base rent for the Expansion Premises increases 3% on each anniversary of March 1 during the term of the lease. As of June 30, 2010, the aggregate lease commitment on our principal facilities is approximately $15.1 million.

Purchase Commitments. In October 2008, we entered into an original equipment manufacturing (OEM) agreement with Scandinavian Micro Biodevices APS (SMB) of Denmark to purchase coagulation analyzers and coagulation cartridges. In the fourth quarter of fiscal 2009, we started marketing the products and, upon achievement of certain milestones by SMB outlined in the agreement, we will be subject to the minimum purchase commitments under the OEM agreement. These milestones have not yet been met and we are currently purchasing coagulation analyzers and coagulation cartridges on a purchase order basis, but all such purchases will count towards the minimum purchase obligations if and when they are triggered.

In July 2010, we entered into a development and supply equipment agreement with Diatron MI PLC (Diatron) of Hungary to purchase Diatron hematology instruments. Under the agreement, we are committed to purchase a minimum number of hematology instruments on an annual basis during the calendar years 2010 and 2011. At June 30, 2010, our outstanding commitment due is approximately $4.3 million. The commitment amount is based on the minimum number of hematology instruments that we are required to purchase, the cost of the instruments and the Euro exchange rate at period-end. Since the exchange rate can fluctuate in the future, the commitment in absolute

dollars will change accordingly.

Patent License Agreement. Effective January 2009, we entered into a license agreement with Inverness Medical Switzerland GmbH (Inverness). Under our license agreement, we licensed co-exclusively certain worldwide patent rights related to lateral flow immunoassay technology in the field of animal health diagnostics in the professional marketplace. The license agreement provides that Inverness shall not grant any future rights to any third parties under its current lateral flow patent rights in the animal health diagnostics field in the professional marketplace. The license agreement enables us to develop and market products under rights from Inverness to address animal health and laboratory animal research markets.

In exchange for the license rights, we (i) paid an up-front license fee of $5.0 million to Inverness in January 2009, (ii) agreed to pay royalties during the term of the agreement, based solely on sales of products in a jurisdiction country covered by valid and unexpired claims in that jurisdiction under the licensed Inverness patent rights, and (iii) agreed to pay a yearly minimum license fee of between $500,000 to $1.0 million per year, which fee will be creditable against any royalties due during such calendar year. The royalties, if any, are payable through the date of the expiration of the last valid patent licensed under the agreement that includes at least one claim in a jurisdiction covering products we sell in that jurisdiction. The yearly minimum fees are payable starting in fiscal 2011 for so long as we desire to maintain exclusivity under the agreement.

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Line of Credit. Through June 30, 2010, we had a line of credit with Comerica Bank-California which provided for borrowings of up to $2.0 million. At June 30, 2010, there was no amount outstanding under our line of credit. In July 2010, we terminated our line of credit with Comerica Bank-California for which we had no outstanding balance due. Further information on our line of credit, including the terms and conditions with respect to our loan covenants, is set forth in Note 7 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Contingencies

We are involved from time to time in various litigation matters in the normal course of business. While the outcome of these proceedings and claims cannot be predicted with certainty, we do not currently believe that the ultimate resolution of these matters will have a material effect on our financial position or results of operations.

On June 28, 2010, Abaxis filed a patent infringement lawsuit against Cepheid with respect to Cepheid s MRSA product on which Cepheid has ceased paying license royalties. On July 12, 2010, Cepheid filed its answer and counterclaims. The counterclaims are for non-infringement, invalidity and bad faith. We believe the counterclaims raised by Cepheid are without merit and intend to contest them vigorously. We also do not believe this litigation will have a material adverse effect on Abaxis.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Financial Condition

We anticipate that our existing capital resources and anticipated revenues from the sales of our products will be adequate to satisfy our currently planned operating and financial requirements through at least the next 12 months. Our future capital requirements will largely depend upon the increased market acceptance of our point-of-care blood analyzer products. However, our sales for any future periods are not predictable with a significant degree of certainty. Regardless, we may seek to raise additional funds to pursue strategic opportunities.

RECENT ACCOUNTING PRONOUNCEMENTS

A discussion of recent accounting pronouncements is included in Note 2 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

We are exposed to the impact of interest rate changes with respect to our short-term and long-term investments. Our investment objective is to invest excess cash in cash equivalents and in various types of investments to maximize yields without significantly increased risk. At June 30, 2010, our short-term investments totaled $28.5 million, consisting of certificates of deposits and corporate bonds, and our long-term investments totaled $33.5 million, consisting of certificates of deposits, corporate bonds, municipal bonds and U.S. agency securities.

We have the ability to hold the investments classified as held-to-maturity in our investment portfolio at June 30, 2010 until maturity and therefore, we believe we have no material exposure to interest rate risk. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to our total investment balances at June 30, 2010 indicated that such market movement would not have a material effect on our business, operating results or financial condition. We have not experienced any significant loss on our investment portfolio during either fiscal 2010 or during the three months ended June 30, 2010.

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 Accounting Standards Codification 815, Derivatives and Hedging.

Foreign Currency Rate Fluctuations

We operate primarily in the United States and a majority of our revenues, cost of revenues, operating expenses and capital purchasing activities are transacted in U.S. dollars. However, we are exposed to foreign currency exchange rate fluctuations on the hematology instruments and hematology reagent kits purchased from Diatron MI PLC, which are primarily denominated in Euros.

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In July 2008, the Germany sales office was incorporated as our wholly-owned subsidiary, Abaxis Europe GmbH, to market, promote and distribute diagnostic systems for medical and veterinary uses. Abaxis Europe GmbH s functional currency is in U.S. dollars. Foreign currency denominated account balances of our subsidiary are remeasured into U.S. dollars at the end-of-period exchange rates for monetary assets and liabilities, and historical exchange rates for nonmonetary assets. Accordingly, the effects of foreign currency transactions, and of remeasuring the financial condition into the functional currency, resulted in foreign currency gains and losses, which were included in Interest and other income (expense), net on our condensed consolidated statements of income. For our sales denominated in local currencies, we are exposed to foreign currency exchange rate fluctuations on revenue and on collection of receivables.

To the extent the U.S. dollar strengthens against the Euro currency, the translation of the foreign currency denominated transactions may result in reduced cost of revenues and operating expenses. Similarly, our cost of revenues and operating expenses will increase if the U.S. dollar weakens against the Euro currency.

Other than the foregoing, there have been no material changes in our market risk during the three months ended June 30, 2010 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company s management, with the participation of the Company s principal executive officer and principal financial officer, has evaluated that the effectiveness of the Company s disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act), as of the end of the period covered by this report. Based on such evaluation, the Company s principal executive officer and principal financial officer, have concluded that, as of the end of such period, the Company s disclosure controls and procedures were effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fiscal quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act.

Inherent Limitations on Controls and Procedures

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even an effective system of internal control will provide only reasonable assurance that the objectives of the internal control system are met.

Item 4T. Controls and Procedures

Not applicable.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

We are involved from time to time in various litigation matters in the normal course of business. We do not believe that the ultimate resolution of these matters will have a material effect on our financial position or results of operations.

On June 28, 2010, Abaxis filed a patent infringement lawsuit against Cepheid with respect to Cepheid s MRSA product on which Cepheid has ceased paying license royalties. On July 12, 2010, Cepheid filed its answer and counterclaims. The counterclaims are for non-infringement, invalidity and bad faith. We believe the counterclaims raised by Cepheid are without merit and intend to contest them vigorously. We also do not believe this litigation will have a material adverse effect on Abaxis.

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Item 1A. Risk Factors

Our facilities and manufacturing operations are vulnerable to natural disasters and other unexpected losses. Any such losses or system failures or delays may harm our business.

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 Piccolo or VetScan blood chemistry analyzers or the reagent discs used in the blood chemistry 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 location in Union City, California experienced a system failure or regulatory problem that temporarily shuts 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 earthquakes, fire, floods, 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.

We are not able to predict sales in future quarters and a number of factors affect our periodic results, which makes our quarterly operating results less predictable.

We are not able to accurately predict our sales in future quarters. Our revenue in the medical and veterinary markets is derived primarily by selling to 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 blood chemistry analyzers that we sold in prior periods, we generally are unable to predict with much certainty sales of our blood chemistry analyzers, as we typically sell our blood chemistry analyzers to new users. Accordingly, our sales in any one quarter are not indicative of our sales in any future period.

We generally operate with a 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.

The sales cycle for our products can fluctuate, which may cause revenue and operating results to vary significantly from period to period. We believe this fluctuation is due primarily to (i) seasonal patterns in the decision making processes by our independent distributors and direct customers, (ii) inventory or timing considerations by our distributors and (iii) on the purchasing requirements of the U.S. Military to acquire our products. Accordingly, we believe that period to period comparisons of our results of operations are not necessarily meaningful.

In the future, our periodic operating results may vary significantly depending on, but not limited to, a number of factors, including:

- 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 blood chemistry analyzers and our reagent disc products;
- the amount we spend on research and development; and
- changes in our strategy.

We depend on limited or sole suppliers for several key components in our products and as original equipment manufacturer supplied products, many of whom we have not entered into contractual relationships with and failure of our suppliers to provide the components or products to us could harm our business.

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, 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 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 stand-alone products: Amano Enzyme USA Co., Ltd., Genzyme Corporation, Kikkoman Corporation Biochemical Division, Microgenics Corporation, a division of Thermo Fisher Scientific, Roche Molecular Biochemicals of Roche Diagnostics Corporation, a division of F. Hoffmann-La Roche, Ltd., SA Scientific Co., Sigma Aldrich Inc. and Toyobo Specialties (formerly Shinko American Inc.).

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Blood Chemistry Analyzer Components: Our blood analyzer products use several technologically-advanced components that we currently purchase from a limited number of vendors, including certain components from a single-source supplier, including components from Hamamatsu Corporation and UDT Sensors (a division of OSI Optoelectronics). Our analyzers also use a printer that is primarily made by Seiko North America Corporation. The loss of the supply of any of these components could force us to redesign our blood chemistry analyzers.

We market original equipment manufacturer supplied products that are currently available from sources as discussed below:

Hematology Instruments and Reagents: Our hematology instruments are manufactured by Diatron MI PLC in Hungary and are purchased by us as a completed instrument. In addition, currently, we have qualified two suppliers to produce the reagents for our hematology instruments: Clinical Diagnostic Solutions, Inc. and Diatron MI PLC.

Coagulation Analyzers and Cartridges: Our coagulation analyzers and cartridges are manufactured by Scandinavian MicroBiodevices APS in Denmark and are purchased by us as completed products.

i-STAT Analyzers and Cartridges: Our i-STAT 1 analyzers and cartridges are manufactured by Abbott Point of Care Inc. in North America and are purchased by us as completed products.

We primarily operate on a purchase order basis with most of our suppliers and, therefore, 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 may be potential alternate suppliers available for these critical components, to date we have not qualified additional vendors beyond those referenced above and cannot assure you we would be able to enter into arrangements with additional vendors on favorable terms, or at all.

Because we are dependent on a limited number of suppliers and manufacturers for 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 would fail to achieve anticipated revenue if the market does not accept our products.

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

In the human medical market, we have relatively limited experience in large-scale sales of our Piccolo blood chemistry analyzers. Although we believe that our blood chemistry analyzers offer consumers many advantages, including substantial cost savings according to our analyses, in terms of implementation of the actual product, these advantages involve changes to current standard practices, such as using large clinical laboratories that will require changes in both the procedures and mindset of care providers. The human medical market in particular is highly regulated, structured, difficult to penetrate and often slow to adopt new product offerings. If we are unable to convince large numbers of medical clinics, hospitals and other point-of-care environments of the benefits of our Piccolo blood chemistry analyzers and our other products, we will suffer lost sales and could fail to achieve anticipated revenue.

Historically, in the veterinary market, we have marketed our VetScan systems through both direct sales and distribution channels to veterinarians. We continue to develop new animal blood tests to expand our product offerings and we cannot be assured that these tests will be accepted by the veterinary market.

We rely on patents and other proprietary information, the loss of which would negatively affect our business.

As of June 30, 2010, 49 patent applications have been filed on our behalf with the United States Patent and Trademark Office (USPTO), of which 30 patents have been issued and 27 patents are currently active. 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 us, 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 USPTO maintains all patent applications that are not filed in any foreign jurisdictions in secrecy until it issues the patents (unless a patent application owner files a request for publication) 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 USPTO, to determine who will be issued a patent. These proceedings could be costly and could be decided against us.

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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 must increase sales of our Piccolo and VetScan products or we may not be able to increase profitability.

As of June 30, 2010, we had retained earnings of $25.6 million. Our ability to continue to be profitable and to increase profitability will depend, in part, on our ability to increase our sales volumes of our Piccolo and VetScan products. Increasing the sales volume of our products will depend upon, among other things, our ability to:

- continue to improve our existing products and develop new and innovative products;
- increase our sales and marketing activities;
- effectively manage 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 sustain or increase profitability.

We must continue to develop our sales, marketing and distribution experience in the human diagnostic market or our business will not grow.

Although we have gained experience marketing our VetScan products in the veterinary diagnostic market, we have limited sales, marketing and distribution experience with our Piccolo chemistry analyzers in the human diagnostic market. Accordingly, we cannot assure you that:

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

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

We depend on key members of our management and scientific staff and, if we fail to retain and recruit qualified individuals, our ability to execute our business strategy and generate sales would be harmed.

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. We may not be able to continue to attract and retain skilled and experienced marketing, sales and manufacturing 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 currently do not maintain key man life insurance on any of our employees.

We rely primarily on distributors to sell our products and we rely on sole distributor arrangements in a number of countries. Our failure to successfully develop and maintain these relationships could adversely affect our business.

We sell our medical and veterinary products primarily through a limited number of 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 operate on a purchase order basis with the distributors and the distributors are 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.

We depend on a number of distributors in North America who distribute our VetScan products. We depend on our distributors to assist us in promoting our products in the veterinary market, and accordingly, if one or more of our distributors were to stop selling our products in the future, we may experience a temporary sharp decline or delay in our sales revenue until our customers identify another distributor or purchase products directly from us.

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In the United States medical market, we depend on a few distributors for our Piccolo products. We entered into formal distribution agreements with the following distributors to sell and market Piccolo chemistry analyzers and medical reagent discs: Henry Schein s Medical Group, McKesson Medical-Surgical Inc., and PSS World Medical, Inc. We depend on these distributors to assist us in promoting market acceptance of our Piccolo chemistry analyzers. Internationally, we rely on only a few distributors for our products in both the medical and veterinary diagnostic markets. We currently rely on distributors that carry either our medical or veterinary products in the following countries: Afghanistan, Australia, Austria, Bahrain, Belgium, Canada, Czech Republic, Denmark, France, Germany, Hong Kong, India, Ireland, Israel, Italy, Japan, Korea, Macao, the Netherlands, New Zealand, the Philippines, Portugal, Romania, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Arab Emirates, the United Kingdom and the United States. Our distributors in each of these countries are responsible for obtaining the necessary approvals to sell our new and existing products. These distributors may not be successful in obtaining proper approvals for our new and existing products in their respective countries, and they may not be successful in marketing our products. Furthermore, an inability of, or any delays by, our distributor in receiving the necessary approvals for our new or other products can adversely impact our revenues in a country. We plan to continue to enter into additional distributor relationships to expand our international distribution base and solidify our international presence. However, we may not be successful in entering into additional distributor relationships on favorable terms, or at all. In addition, 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 turnover makes it difficult for us to establish a steady distribution network overseas. Consequently, we may not be successful in marketing our Piccolo and VetScan products internationally.

We need to successfully manufacture and market 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 chemistry analyzers. Historically, we have developed reagent discs suitable for the human medical and veterinary diagnostic markets. We have received 510(k) clearances from the U.S. Food and Drug Administration (FDA) for 26 test methods in the human medical market. These tests are included in standard tests for which the medical community receives reimbursements from third-party payors such as health maintenance organizations (HMOs) and Medicare. We may not be able to successfully manufacture or market these reagent discs. Our failure to meet these challenges will materially adversely affect our operating results and financial condition.

We may not be able to compete effectively with larger, more established entities or their products, or with future organizations or future products, which could cause our sales to decline.

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 (a listing of our competitors is listed below).

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

- range of tests offered;
- 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 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. In addition, 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 on the basis of range of tests offered.

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Competition in the human and veterinary diagnostic markets is intense. Our principal competitors in the human diagnostic market are Alere (formerly Inverness Medical Technologies), Alfa Wassermann S.P.A., i-STAT Corporation (which was purchased by Abbott Laboratories), Johnson & Johnson (including its subsidiary, Ortho-Clinical Diagnostics, Inc.), Kodak (DT60 analyzer), Polymedco, Inc. and F. Hoffman-La Roche (Reflotron system). Our principal competitors in the veterinary diagnostic market are Idexx Laboratories, Inc. and Heska Corporation. Many of our competitors have significantly larger product lines to offer and 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 significantly expand 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 Centers for Medicare and Medicaid Services (the CMS) set 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 would 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 and regulatory changes are difficult to predict and may be damaging to our business.

Need for Government Regulation for Our Products

Our Piccolo products are medical devices subject to regulation by the FDA, under the Federal Food, Drug, and Cosmetic Act, or FDCA. Medical devices, to be commercially distributed in the United States, must receive either 510(k) premarket clearance or Premarket Approval (PMA) from the FDA pursuant to the FDCA prior to marketing. Devices deemed to pose relatively less risk are placed in either class I or II, which generally requires the manufacturer to submit a premarket notification requesting permission for commercial distribution; this is known as 510(k) clearance. Most lower risk, or class I, devices are exempted from this requirement. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life supporting or implantable devices, or devices deemed not substantially equivalent to a previously 510(k) cleared device or a preamendment class III device for which PMA applications have not been called, are placed in class III requiring PMA approval. The FDA has classified our Piccolo products as class I or class II devices, depending on their specific intended uses and indications for use.

510(k) Clearance Pathway. To obtain 510(k) clearance, a manufacturer must submit a premarket notification demonstrating that the proposed device is substantially equivalent in intended use, principles of operation, and technological characteristics to a previously 510(k) cleared device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not called for submission of PMA applications. The FDA s 510(k) clearance pathway usually takes from three to six months, but it can last longer.

After a device receives 510(k) clearance, any modification that could significantly affect its safety or effectiveness, or that would constitute a major change in its intended use, requires a new 510(k) clearance or could require a PMA approval. The FDA requires each manufacturer to make this determination in the first instance, but the FDA can review any such decision. If the FDA disagrees with a manufacturer s decision not to seek a new 510(k) clearance, the agency may retroactively require the manufacturer to seek 510(k) clearance or PMA approval. The FDA also can require the manufacturer to cease marketing and/or recall the modified device until 510(k) clearance or PMA approval is obtained, to redesign the device or to submit new data or information to the FDA. Products marketed following the FDA clearance also are subject to significant postmarket requirements.

As of June 30, 2010, we have received the FDA premarket clearance for our Piccolo chemistry analyzer and 26 reagent tests that we have on 14 reagent discs. We are currently developing additional tests which we will have to clear with the FDA through the 510(k) notification procedures. These new test products are crucial for our continued success in the human medical market. If we do not receive 510(k) clearance for a particular product, we will not be able to market that product in the United States until we provide additional information to the FDA and gain

premarket clearance. The inability to market a new product during this time could harm our future sales.

APHIS Licensure of Veterinary Biologics

On October 8, 2009, Abaxis announced it has received APHIS licensure of its canine heartworm antigen (CHW) test utilizing a rotor-based assay system consisting of eleven other important canine health determinations. The CHW diagnostic product is regulated as a veterinary biologic by the Animal and Plant Health Inspection Service (APHIS) under the Virus, Serum, and Toxin Act of 1913. Veterinary biologics are licensed as are their manufacturing facilities. Products are subject to extensive testing to establish their purity, safety, potency, and efficacy. Licensed biologics are also required to be prepared in accordance with a filed Outline of Production, among other requirements. Failure to comply with APHIS licensure or post-marketing approval requirements can result in the inability to obtain product or establishment licenses or cause the revocation or suspension of such licenses.

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We are currently developing additional tests that will be subject to APHIS licensure as veterinary biologics. If we do not receive licensure, we will not be able to market that product in the United States, which could also harm our sales.

Need to Comply with Manufacturing Regulations and Various Federal, State, Local and International 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 21 CFR 820 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 inspections. In addition, various state regulatory agencies may regulate the manufacture of our products.

Federal, state, local and international regulations regarding the manufacture and sale of health care products and diagnostic devices may change. In addition, as we continue to sell in foreign markets, we may have to obtain additional governmental clearances in those markets.

To date, we have complied with the following federal, state, local and international regulatory requirements:

- In April 2001, the State of California Food and Drug Branch granted our manufacturing facility in compliance status, based on the regulations for Good Manufacturing Practices for medical devices.
- In May 2001, the State of California Food and Drug Branch granted licensing for our manufacturing facility in Union City, California.
- In May 2002, we received our ISO 9001 certification, expanding our compliance with international quality standards.
- In December 2003, we received ISO 13485 Quality System certification as required by the 2003 European In Vitro Device Directive. This certified our quality system specifically to medical devices.
- In both September 2005 and March 2003, the FDA conducted a facility inspection and verified our compliance with the 21 CFR 820 Regulation.
- In September 2005, we received the Canadian Medical Device Conformity Assessment System stamp on our ISO 13485 certificate to signify compliance with Health Canada regulations.
- In August 2008, the FDA conducted an additional facility inspection to verify our compliance with 21 CFR 820 Regulation.
- In October 2009, we received our recertification to the ISO 13485:2003 Quality System Standard for medical devices.
- In October 2009, we received a United States Veterinary Biologics Establishment License from the United States Department of Agriculture.

We cannot assure you that we will successfully pass the latest FDA inspection or any 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. We cannot predict what impact, if any, such current or future regulatory changes would have on our business. 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. 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. Although we believe that we will be able to comply with all applicable regulations of the FDA and of the State of California, including the Quality System Regulation, current regulations depend on administrative interpretations. Future interpretations made by the FDA, CMS or other regulatory bodies may adversely affect our business.

Effects of the Clinical Laboratory Improvement Amendments on Our Products

Our Piccolo products are also affected by the Clinical Laboratory Improvement Amendments (the CLIA) of 1988. The CLIA are intended to ensure the quality and reliability of all medical testing in the United States regardless of where the tests are performed. The current CLIA regulations divide laboratory tests into the following three categories:

- waived;
- moderately complex; and

highly complex.

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Many of the tests performed using the Piccolo chemistry analyzer 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 some Piccolo products to customers who meet the standards of a laboratory. To receive laboratory certification, a testing facility must be certified by the CMS. After the testing facility receives a laboratory certification, it must then meet the CLIA regulations. Because we can only sell some Piccolo products to testing facilities that are certified laboratories, the market for some products is correspondingly constrained.

We can currently offer the following Piccolo reagent discs as waived tests to the medical market: Basic Metabolic Panel, Comprehensive Metabolic Panel, Electrolyte Panel, General Chemistry 6, General Chemistry 13, Kidney Check, Lipid Panel, Lipid Panel Plus, Liver Panel Plus, MetLyte 8 Panel and Renal Function Panel. Waived status permits untrained personnel to run the Piccolo chemistry analyzer using these tests; thus, extending the sites (doctors offices and other point-of-care environments) that can use the Piccolo chemistry analyzer. Although we are engaged in an active program to test and apply for CLIA waivers for additional analytes, we cannot assure you that we will successfully receive CLIA waived status from the FDA for other products. Consequently, for the reagent discs that have not received CLIA waived status, the market for our Piccolo products may be confined to those testing facilities that are certified as laboratories and our growth can be limited accordingly.

We have incurred and may continue to incur, in future periods, significant share-based compensation charges which may adversely affect our reported financial results.

In accordance with Accounting Standards Codification 718, Compensation-Stock Compensation, issued by the Financial Accounting Standards Board, we measure all share-based payments to employees using a fair-value-based method and we record such expense in our results of operations. The fair value of restricted stock unit awards used in our expense recognition method is measured based on the number of shares granted and the closing market price of our common stock on the date of grant. Such value is recognized as an expense, net of an estimated forfeiture rate, over the corresponding requisite service period. Since fiscal 2007, we have granted restricted stock unit awards annually to employees based on the following time-based vesting schedule over a four-year period: five percent vesting after the first year; additional ten percent after the second year; additional 15 percent after the third year; and the remaining 70 percent after the fourth year of continuous employment. Since we began granting restricted stock units as part of our share-based compensation program in fiscal 2007, share-based compensation expense related to restricted stock units had a material impact on our earnings per share and on our consolidated financial statements and we expect that it will continue to adversely impact our reported results of operations, particularly in the fourth year of vesting for the restricted stock unit awarded to employees. As of June 30, 2010, our unrecognized compensation expense related to restricted stock unit awards granted to employees and directors to date totaled $16.9 million, which is expected to be recognized over a weighted average service period of 2.45 years.

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 to pay material uninsured claims.

Our business exposes us to potential warranty and product liability risks which are inherent in the testing, manufacturing and marketing of human and veterinary medical products. We strive to apply sophisticated methods to raw materials and produce 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 occurs in limited quantities, that we have not anticipated or otherwise. Our Piccolo and VetScan chemistry analyzers may be unable to detect all errors which could result in the misdiagnosis of human or veterinary patients.

Should we inadvertently manufacture and ship defective products, we may be subject to substantial claims under our warranty policy or product liability laws. In addition, our policy is to credit medical providers for any defective product that we produce, including those reagent discs that are rejected by our Piccolo and VetScan chemistry analyzers. Therefore, even if a mass defect within a lot or lots of reagent discs were detected by our Piccolo and VetScan chemistry analyzers, the replacement of such reagent discs free of charge would be costly and could materially harm our financial condition. Further, in the event that a product defect is not detected in our Piccolo chemistry analyzer, our relatively recent expansion into the human medical market greatly increases the risk that the amount of damages involved with just one product defect would be material to our operations. We currently maintain limited product liability insurance that we believe is adequate for our current needs, taking into account the risks

involved and cost of coverage. However, our product liability insurance and cash 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 subject us to claims above the amount of our coverage and would materially adversely affect our business and our financial condition.

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We could fail to achieve anticipated revenue if we experience problems related to the manufacture of our blood chemistry analyzers.

We manufacture our blood chemistry analyzers at our manufacturing facility in Union City, California. During fiscal 2008, we experienced problems related to the manufacture of our new blood chemistry analyzer, which were primarily related to difficulties and delays in obtaining certain key components that we purchase from various suppliers. These manufacturing problems were primarily related to quality control issues for key components that we obtain from our suppliers and to design issues of the key components required in our blood chemistry analyzer. Our difficulties in obtaining an adequate amount of quality components for the manufacture of our blood chemistry analyzer had a materially adverse impact on our sales of VetScan chemistry analyzers in fiscal 2008. We believe that we have taken appropriate steps to resolve these issues, including securing quality parts from our suppliers, but there can be no assurance that our efforts to resolve these manufacturing difficulties will continue to prove to be successful or that similar supply problems will not arise in the future. If we are unable to prevent similar problems from occurring in the future, we may not be able to manufacture sufficient quantities to meet anticipated demand and, therefore, will not be able to effectively market and sell our blood chemistry analyzers; accordingly, our revenue and business would be materially adversely affected.

Fluctuations in foreign exchange rates and the possible lack of financial stability in foreign countries could prevent overseas sales growth.

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

We are subject to increasingly complex requirements from recent legislation requiring companies to evaluate internal control over financial reporting.

Rules adopted by the Securities and Exchange Commission pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 require an assessment of internal control over financial reporting by our management and an attestation of the effectiveness of our internal controls over financial reporting by an independent registered public accounting firm. We have an ongoing program to perform the assessment, testing and evaluation to comply with these requirements and we expect to continue to incur significant expenses for Section 404 compliance on an ongoing basis.

Our management assessed the effectiveness of our internal control over financial reporting as of our fiscal years ended March 31, 2010 and 2009. Although we received an unqualified opinion on our consolidated financial statements for the fiscal years ended March 31, 2010 and 2009, and on the effectiveness of our internal control over financial reporting as of March 31, 2010 and 2009, we cannot predict the outcome of our testing in future periods. In the event that our internal control over financial reporting is not effective as defined under Section 404, or any failure to implement required new or improved controls, or difficulties encountered in implementation could harm operating results or prevent us from accurately reporting financial results or cause a failure to meet our reporting obligations in the future. If management cannot assess internal control over financial reporting is effective, or our independent registered public accounting firm is unable to provide an unqualified attestation report on such assessment, investor confidence and our share value may be negatively impacted.

We must comply with strict and potentially costly environmental regulations or we could pay significant fines.

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. Our costs to comply with applicable environmental regulations consist primarily of handling and disposing of human and veterinary blood samples for testing (whole blood, plasma, serum). Although we believe that we have complied with applicable laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, we may have to incur significant costs to comply with environmental regulations if our manufacturing to commercial levels continues to increase. In addition, if a government agency determines that we have not complied with these laws, rules and regulations, we may have to

pay significant fines and/or take remedial action that would be expensive and we do not carry environmental-related insurance coverage.

Our operating results could be materially affected by unanticipated changes in our tax provisions or exposure to additional income tax liabilities.

Our determination of our tax liability (like any company s determination of its tax liability) is subject to review by applicable tax authorities. Any adverse outcome of such a review could have an adverse effect on our operating results and financial condition. In addition, the determination of our provision for income taxes and other tax liabilities requires significant judgment including our determination of whether a valuation allowance against deferred tax assets is required. Although we believe our estimates and judgments are reasonable, the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods for which such determination is made.

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Our stock price is highly volatile and investing in our stock involves a high degree of risk, which could result in substantial losses for investors.

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 quarter ended June 30, 2010, the closing sale prices of our common stock on the NASDAQ Global Market ranged from $20.70 to $28.06 per share and the closing sale price for our quarter ended June 30, 2010 was $21.43 per share. During the last eight fiscal quarters ended June 30, 2010, our stock price closed at a high of $29.22 per share on September 16, 2009 and a low of $10.28 per share on October 27, 2008. Many factors may affect the market price of our common stock, including:

- fluctuation in our operating results;
- announcements of technological innovations or new commercial products by us or our competitors;
- changes in governmental regulation in the United States and internationally;
- 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 our patents or our other proprietary rights;
- product liability claims and 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.

Our shareholders rights plan and our ability to issue preferred stock may delay or prevent a change of control of Abaxis.

Our shareholder rights plan, adopted by our board of directors on April 22, 2003, may make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire control of, Abaxis. The shareholder rights plan could limit the price that investors might be willing to pay in the future for shares of our common stock.

In addition, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the shareholders, except to the extent required by NASDAQ rules. The issuance of preferred stock, while providing flexibility in connection with possible financings or acquisitions or other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of our outstanding voting stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Removed and Reserved

Item 5. Other Information

Not applicable.

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Item 6. Exhibits

Exhibit No.	Description of Document
3.1	Restated Articles of Incorporation (Filed with the Securities and Exchange Commission as an exhibit with our Annual Report on Form 10-K for the fiscal year ended March 31, 1993 and incorporated herein by reference.)
3.2	Certificate of Amendment of Amended and Restated Articles of Incorporation (Filed with the Securities and Exchange Commission as an exhibit with our Quarterly Report on Form 10-Q for the quarterly period ended December 31, 1996 and incorporated herein by reference.)
3.3	By-laws (Filed with the Securities and Exchange Commission in our Registration Statement No. 33-44326 on December 11, 1991 and incorporated herein by reference.)
3.4	Amendment to the By-laws (Filed with the Securities and Exchange Commission as an exhibit with our Current Report on Form 8-K on July 30, 2007 and incorporated herein by reference.)
4.1	Registration Rights Agreement, dated as of March 29, 2002 (Filed with the Securities and Exchange Commission as an exhibit with our Current Report on Form 8-K on May 13, 2002 and incorporated herein by reference.)
4.2	Reference is made to Exhibit 3.1, Exhibit 3.2, Exhibit 3.3 and Exhibit 3.4.
10.1*	Fiscal 2011 Base Salary and Target Bonus for the Named Executive Officers (Filed with the Securities and Exchange Commission in our Current Report on Form 8-K on May 4, 2010 and incorporated herein by reference.)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement.

\# This certification accompanies this Quarterly Report on Form

10-Q. The certification is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Abaxis, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q and irrespective of any general incorporation language contained in any such filing.

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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: August 9, 2010

BY: /s/ Clinton H. Severson
Clinton H. Severson
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: August 9, 2010

BY: /s/ Alberto R. Santa Ines
Alberto R. Santa Ines
Chief Financial Officer and Vice President of Finance
(Principal Financial and Accounting Officer)