ABAXIS INC
Form 10-Q
November 09, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2012

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 x 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 x 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 x	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 x

As of November 6, 2012, there were 21,950,000 shares of the registrant's common stock outstanding.

ABAXIS, INC.

Form 10-Q

For the Quarter Ended September 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

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

	September 30, 2012	March 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$54,109	$45,843
Short-term investments	24,764	21,689
Receivables (net of allowances of $202 at September 30, 2012 and $283 at March 31, 2012)	48,395	30,694
Inventories	22,060	19,597
Prepaid expenses and other current assets	2,099	5,423
Net deferred tax assets, current	4,328	4,151
Total current assets	155,755	127,397
Long-term investments	21,718	23,442
Investment in unconsolidated affiliate	2,592	2,626
Property and equipment, net	25,315	24,296
Intangible assets, net	3,673	3,990
Other assets	77	85
Total assets	$209,130	$181,836
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$8,202	$6,381
Accrued payroll and related expenses	8,065	6,336
Accrued taxes	3,531	266
Other accrued liabilities	3,109	1,991
Deferred revenue	1,280	1,212
Warranty reserve	1,043	1,245
Total current liabilities	25,230	17,431
Non-current liabilities:		
Deferred rent	691	641
Net deferred tax liabilities	89	199
Deferred revenue	2,913	2,396
Warranty reserve	437	601
Notes payable, less current portion	733	783
Total non-current liabilities	4,863	4,620
Total liabilities	30,093	22,051
Commitments and contingencies (Note 9)		
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; 21,940,000 and 21,699,000 shares issued and outstanding at September 30, 2012 and at March 31, 2012, respectively	113,520	110,063
Retained earnings	65,470	49,697
Accumulated other comprehensive income	47	25
Total shareholders' equity	179,037	159,785
Total liabilities and shareholders' equity	$209,130	$181,836

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

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ABAXIS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except share and per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Revenues	$44,258	$40,025	$86,272	$76,028
Cost of revenues	21,135	18,004	40,300	34,784
Gross profit	23,123	22,021	45,972	41,244
Operating expenses:				
Research and development	3,581	3,008	6,546	6,462
Sales and marketing	11,505	9,335	23,274	18,487
General and administrative	4,621	4,495	7,943	7,914
Gain from legal settlement	(17,250)	-	(17,250)	-
Total operating expenses	2,457	16,838	20,513	32,863
Income from operations	20,666	5,183	25,459	8,381
Interest and other income (expense), net	255	56	25	350
Income before income tax provision	20,921	5,239	25,484	8,731
Income tax provision	8,012	1,918	9,711	3,196
Net income	$12,909	$3,321	$15,773	$5,535
Net income per share:				
Basic net income per share	$0.59	$0.15	$0.72	$0.25
Diluted net income per share	$0.58	$0.15	$0.71	$0.24
Shares used in the calculation of net income per share:				
Weighted average common shares outstanding - basic	21,920,000	22,290,000	21,869,000	22,484,000
Weighted average common shares outstanding - diluted	22,306,000	22,564,000	22,280,000	22,850,000

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

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ABAXIS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Net income	$12,909	$3,321	$15,773	$5,535
Other comprehensive income:				
Net change in unrealized gain (loss) on investments	44	-	38	-
Provision for income taxes related to items of other comprehensive income	18	-	16	-
Other comprehensive income, net of tax	26	-	22	-
Comprehensive income	$12,935	$3,321	$15,795	$5,535

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)

	Six Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$15,773	$5,535
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,916	2,435
Investment premium amortization, net	448	503
Net loss on disposals of property and equipment	20	8
Net loss on foreign exchange translation	292	141
Share-based compensation expense	3,511	2,682
Excess tax benefits from share-based awards	(1,145)	(486)
Provision for deferred income taxes	(303)	374
Equity in net loss of unconsolidated affiliate	34	72
Changes in assets and liabilities:		
Receivables, net	(17,691)	288
Inventories	(3,121)	41
Prepaid expenses and other current assets	3,988	(1,144)
Other assets	6	20
Accounts payable	1,824	839
Accrued payroll and related expenses	1,736	744
Accrued taxes	3,700	(316)
Other accrued liabilities	1,118	96
Deferred rent	50	114
Deferred revenue	585	518
Warranty reserve	(366)	214
Net cash provided by operating activities	13,375	12,678
Cash flows from investing activities:		
Purchases of held-to-maturity investments	(13,961)	(18,174)
Proceeds from maturities and redemptions of held-to-maturity investments	11,951	33,141
Proceeds from maturities and redemptions of available-for-sale investments	249	-
Purchases of property and equipment	(2,945)	(4,777)
Net cash (used in) provided by investing activities	(4,706)	10,190
Cash flows from financing activities:		
Proceeds from notes payable from municipal agency	-	147
Proceeds from the exercise of stock options	261	430
Tax withholdings related to net share settlements of restricted stock units	(1,495)	(2,019)
Repurchases of common stock	-	(27,328)
Excess tax benefits from share-based awards	1,145	486
Net cash used in financing activities	(89)	(28,284)
Effect of exchange rate changes on cash and cash equivalents	(314)	(61)
Net increase (decrease) in cash and cash equivalents	8,266	(5,477)
Cash and cash equivalents at beginning of period	45,843	43,471
Cash and cash equivalents at end of period	$54,109	$37,994

Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	$3,308	$2,796
Supplemental disclosure of non-cash flow information:		
Change in unrealized gain (loss) on investments, net of tax	$22	$-
Transfers of equipment between inventory and property and equipment, net	$693	$645
Net change in capitalized share-based compensation	$35	$(19)
Common stock withheld for employee taxes in connection with share-based compensation	$1,495	$2,019
Repayment of notes payable by credits from municipal agency	$50	$44

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 October 2011, Abaxis began providing veterinary reference laboratory diagnostic and consulting services for veterinarians. We conduct business worldwide and manage our business on the basis of the following two reportable segments: the medical market and the veterinary market.

Abaxis Europe GmbH, our wholly-owned subsidiary in Darmstadt, Germany, markets, promotes and distributes diagnostic systems for medical and veterinary uses in the European market.

Principles of Consolidation. The accompanying unaudited condensed consolidated financial statements 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 and six month periods ended September 30, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending March 31, 2013 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, 2012.

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 condensed consolidated 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, and related disclosures. Such management estimates include allowance for doubtful accounts, sales and other allowances, estimated selling price of our products, fair value of investments, valuation of inventory, fair value and 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 disclosed in our Annual Report on Form 10-K for the year ended March 31, 2012 filed with the SEC on June 14, 2012, and have not changed significantly since such filing.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

Fair Value Measurement and Disclosure: In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards," (Topic 820) - Fair Value Measurement (ASU 2011-04), to clarify guidance and minimize differences between accounting principles generally accepted in the U.S. and International Financial Reporting Standards. Among other things, the guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed. The amended guidance is applied prospectively and is effective for the Company beginning on April 1, 2012. The adoption of this amendment did not have a material impact on our consolidated financial position, results of operations and cash flows.

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Presentation of Comprehensive Income: In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," (Topic 220) - Comprehensive Income (ASU 2011-05), to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the currently available option to present the components of other comprehensive income as part of the statement of shareholders' equity. The amendment does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendment is effective for the Company beginning on April 1, 2012. As this guidance relates to presentation only, the adoption of this guidance did not have any other effect on the Company's consolidated financial statements.

Testing Goodwill for Impairment: In September 2011, the FASB issued ASU No. 2011-08, "Testing Goodwill for Impairment," (Topic 350) - Intangibles - Goodwill and Other (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The amendment is effective for the Company beginning on April 1, 2012. We will assess the impact of the guidance if and when such transactions occur.

Disclosures about Offsetting Assets and Liabilities: In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," (Topic 210) - Balance Sheet (ASU 2011-11), to enhance disclosure requirements relating to the offsetting of assets and liabilities on an entity's balance sheet. The update requires enhanced disclosures regarding assets and liabilities that are presented net or gross in the statement of financial position when the right of offset exists, or that are subject to an enforceable master netting arrangement. The new disclosure requirements relating to this update are retrospective and effective for the Company beginning on April 1, 2013. The update only requires additional disclosures, as such, we do not expect the adoption of this accounting pronouncement to have a material impact on our consolidated financial position, results of operations or cash flows.

NOTE 3. INVESTMENTS

Our investments are classified as either available-for-sale or held-to-maturity. The following table summarizes available-for-sale and held-to-maturity investments as of September 30, 2012 and March 31, 2012 (in thousands):

	Available-for-Sale Investments			
September 30, 2012	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Certificates of deposits	$996	$ 5	$ -	$1,001
Corporate bonds	6,038	73	-	6,111
Municipal bonds	946	1	-	947
Total available-for-sale investments	$7,980	$ 79	$ -	$8,059

	Held-to-Maturity Investments			
September 30, 2012	Amortized Cost	Gross Unrecognized Gain	Gross Unrecognized (Loss)	Fair Value
Certificates of deposits	$3,590	$ -	$ (1)	$3,589
Corporate bonds	24,308	142	(15)	24,435
Municipal bonds	10,525	49	-	10,574

Total held-to-maturity investments	$38,423	$ 191	$ (16)	$38,598

	Available-for-Sale Investments			
March 31, 2012	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Certificates of deposits	$1,245	$ 2	$ -	$1,247
Corporate bonds	6,047	38	-	6,085
Municipal bonds	961	1	-	962
Total available-for-sale investments	$8,253	$ 41	$ -	$8,294

	Held-to-Maturity Investments			
March 31, 2012	Amortized Cost	Gross Unrecognized Gain	Gross Unrecognized (Loss)	Fair Value
Certificates of deposits	$844	$ -	$ -	$844
Corporate bonds	23,072	131	(31)	23,172
Municipal bonds	12,921	71	(1)	12,991
Total held-to-maturity investments	$36,837	$ 202	$ (32)	$37,007

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The amortized cost of our held-to-maturity investments approximates their fair value. As of September 30, 2012 and March 31, 2012, we did not have other-than-temporary impairment in the fair value of any individual security classified as held-to-maturity or available-for-sale. As of September 30, 2012 and March 31, 2012, we had unrealized gains on available-for-sale investments, net of related income taxes of $47,000 and $25,000, respectively. Redemptions of investments in accordance with the callable provisions during the three months ended September 30, 2012 and 2011 were $0 and $13.0 million, respectively, and during the six months ended September 30, 2012 and 2011 were $717,000 and $13.0 million, respectively.

The following table summarizes the amortized cost and fair value of our investments, classified by stated maturity as of September 30, 2012 and March 31, 2012 (in thousands):

	September 30, 2012 Available-for-Sale Investments		September 30, 2012 Held-to-Maturity Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$946	$947	$23,817	$23,879
Due in 1 to 4 years	7,034	7,112	14,606	14,719
Total investments	$7,980	$8,059	$38,423	$38,598

	March 31, 2012 Available-for-Sale Investments		March 31, 2012 Held-to-Maturity Investments	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	$670	$670	$21,019	$21,062
Due in 1 to 4 years	7,583	7,624	15,818	15,945
Total investments	$8,253	$8,294	$36,837	$37,007

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. When determining fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy 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.

The following table summarizes financial assets, measured at fair value on a recurring basis, by level within the fair value hierarchy as of September 30, 2012 and March 31, 2012 (in thousands):

	As of September 30, 2012			
	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	$6,241	$ -	$ -	$6,241
Available-for-sale investments:				
Certificates of deposits	-	1,001	-	1,001
Corporate bonds	-	6,111	-	6,111
Municipal bonds	-	947	-	947
Total assets at fair value	$6,241	$ 8,059	$ -	$14,300

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	As of March 31, 2012			
	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	$6,996	$ -	$ -	$6,996
Available-for-sale investments:				
Certificates of deposits	-	1,247	-	1,247
Corporate bonds	-	6,085	-	6,085
Municipal bonds	-	962	-	962
Total assets at fair value	$6,996	$ 8,294	$ -	$15,290

As of September 30, 2012 and March 31, 2012, our Level 1 financial assets are comprised of money market mutual funds. Our cash equivalents 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 September 30, 2012 and March 31, 2012, we did not have any Level 1 financial liabilities.

As of September 30, 2012 and March 31, 2012, our Level 2 financial assets are comprised of certificates of deposits, corporate bonds and municipals bonds. We review trading activity and pricing for these investments as of the measurement date. When sufficient quoted pricing for identical securities is not available, we use market pricing and other observable market inputs for similar securities obtained from third party data providers. These inputs represent quoted prices for similar assets in active markets or these inputs have been derived from observable market data. This approach results in the classification of these securities as Level 2 of the fair value hierarchy. As of September 30, 2012 and March 31, 2012, we did not have any Level 2 financial liabilities.

As of September 30, 2012 and March 31, 2012, we did not have any Level 3 financial assets or liabilities measured at fair value on a recurring basis. During the three and six months ended September 30, 2012 and 2011, we did not have any 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):

	September 30, 2012	March 31, 2012
Raw materials	$10,035	$9,046
Work-in-process	2,868	3,369
Finished goods	9,157	7,182
Inventories	$22,060	$19,597

NOTE 6. INVESTMENT IN UNCONSOLIDATED AFFILIATE

Our investment in an unconsolidated affiliate consists of an investment in equity securities of Scandinavian Micro Biodevices APS ("SMB"). In February 2011, we purchased a 15% equity ownership interest in SMB, for $2.8 million in cash. SMB is a privately-held developer and manufacturer of point-of-care diagnostic products for veterinary use. SMB, based in Farum, Denmark, has been the original equipment manufacturer of the Abaxis VetScan VSpro point-of-care coagulation and specialty analyzer since 2008. Abaxis has had exclusive distribution rights for the analyzer and associated cartridges in North America since 2008. Starting January 2011, Abaxis has non-exclusive rights in other areas of the world. We accounted for our investment in SMB using the equity method due to our significant influence over SMB's operations. Our allocated portions of SMB's net loss during the three months ended September 30, 2012 and 2011 were $51,000 and $34,000, respectively, and during the six months ended September 30, 2012 and 2011 were $34,000 and $72,000, respectively.

NOTE 7. 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, depending on the type of product. 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.

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During the six months ended September 30, 2012, we recorded an adjustment to pre-existing warranties of $290,000, which reduced our warranty reserves and our cost of revenues, based on both historical and projected product performance rates of instruments. Management periodically evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. If an unusual performance rate related to warranty claims is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated.

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. The balance of accrued warranty reserve related to replacement of defective reagent discs at September 30, 2012 and March 31, 2012 was $623,000 and $564,000, respectively, which was classified as a current liability on the condensed consolidated balance sheets.

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 and six months ended September 30, 2012 and 2011 is summarized as follows (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Balance at beginning of period	$ 1,494	$ 1,470	$ 1,846	$ 1,222
Provision for warranty expense	354	270	661	613
Warranty costs incurred	(368)	(304)	(737)	(656)
Adjustment to pre-existing warranties	-	-	(290)	257
Balance at end of period	1,480	1,436	1,480	1,436
Non-current portion of warranty reserve	437	313	437	313
Current portion of warranty reserve	$ 1,043	$ 1,123	$ 1,043	$ 1,123

NOTE 8. BORROWINGS

Notes Payable. We have a ten year loan agreement with the Community Redevelopment Agency of the City of Union City (“the Agency”) whereby the Agency provides us with an unsecured loan of up to $1.0 million, primarily to purchase capital equipment. The loan was effective January 2011, bears interest at 5.0% and is payable quarterly. As of September 30, 2012, our short-term and long-term notes payable balances were $100,000 and $733,000, respectively, and we recorded the short-term balance in other accrued liabilities on the consolidated balance sheets. The entire outstanding balance of the note shall be payable in full on the earlier of: (i) December 2020, or (ii) the date Abaxis ceases operations in Union City, California. The Agency also has the right to accelerate the maturity date and declare all balances immediately due and payable upon the event of default as defined in the loan agreement. We evaluate covenants in our loan agreement on a quarterly basis, and we were in compliance with such covenants as of September 30, 2012.

In accordance with the terms of the loan agreement, the Agency will provide Abaxis with an annual credit that can be applied against the accrued interest and outstanding principal balance on a quarterly basis. The Agency determines

the annual credit based on certain taxes paid by Abaxis to the City of Union City, California for a specified period, as defined in the loan agreement. We anticipate that our annual credits from the Agency will be used to fully repay our notes payable due to the Agency. We may carry forward unused quarterly credits to apply against our outstanding balance in a future period. Credits applied to repay our notes payable and accrued interest are recorded in "Interest and other income (expense), net" on the consolidated statements of income.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments. In October 2008, we entered into an original equipment manufacturing ("OEM") agreement with SMB of Denmark to purchase coagulation and specialty analyzers and related cartridges. Effective January 2011, we amended and restated our OEM agreement, including the terms of our minimum purchase commitments. Under the amended agreement, we committed to purchase a minimum number of coagulation and specialty analyzers and related cartridges on an annual basis during each calendar year 2011 through 2015. Our purchase obligations in the future may be adjusted if our minimum purchase commitments are not met during a calendar year period. At September 30, 2012, our total remaining outstanding commitment due is approximately $10.2 million.

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In December 2011, we executed a term sheet to enter into a development and supply equipment agreement with Diatron MI PLC ("Diatron") of Hungary to purchase Diatron hematology instruments. Effective July 2012, we entered into a development and supply agreement with Diatron and under the agreement terms, we committed to purchase a minimum number of hematology instruments on an annual basis through fiscal year 2015. At September 30, 2012, our total remaining outstanding commitment due is approximately $8.8 million. Furthermore, at September 30, 2012, we prepaid $402,000 to Diatron for future purchases of hematology instruments and reagents, which was recorded in prepaid expenses and other currents assets on the consolidated balance sheet. 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. Because the exchange rate will fluctuate in the future, the dollar amount of the purchase commitment in dollars will change accordingly.

Patent Licensing Agreement. Effective January 2009, we entered into a license agreement with Alere. 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 Alere 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 Alere 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 Alere 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 Alere 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 became payable starting in fiscal 2011 for so long as we desire to maintain exclusivity under the agreement.

Litigation. On June 28, 2010, we filed a patent infringement lawsuit against Cepheid. On September 24, 2012, the parties agreed to terminate all pending and future claims connected with the litigation in exchange for a one-time payment by Cepheid of $17.3 million, which we recorded in receivables and recognized as an offset to operating expenses during the second quarter of fiscal 2013.

On October 1, 2012, St. Louis Police Retirement System, a purported shareholder of Abaxis, filed a lawsuit against certain officers and each of our directors in the United States District Court for the Northern District of California alleging, among other things, that the directors violated Section 14(a) of the Securities Exchange Act of 1934 and breached their fiduciary duties by allegedly failing to disclose material information in our 2010 proxy statement, breached their fiduciary duties by allegedly violating the terms of our 2005 Equity Incentive Plan, and breached their fiduciary duties by failing to disclose alleged material information in our 2012 proxy statement regarding (1) the events leading up to our proposal to amend the 2005 Equity Incentive Plan to eliminate the limit on the number of shares that may be issued pursuant to restricted stock units, and (2) the effects of the proposed amendment on certain settled and outstanding restricted stock units. The plaintiff seeks, among other things, damages, disgorgement and attorney's fees. In addition, the plaintiff sought, and on October 23, 2012 the court issued, an order preliminarily enjoining our shareholder vote on Proposal 2 in our 2012 proxy statement, regarding an amendment to the 2005 Equity Incentive Plan, until such time as additional disclosures could be made. The Company filed with the SEC and mailed to shareholders supplemental proxy materials approved by the court, the injunction was lifted and our shareholders approved the proposal to amend our 2005 Equity Incentive Plan. We believe the claims raised by the plaintiff are without merit and intend to contest them vigorously.

We are involved from time to time in various litigation matters in the normal course of business. There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

NOTE 10. EQUITY COMPENSATION PLANS AND SHARE-BASED COMPENSATION

Equity Compensation Plan

As of September 30, 2012, we have one equity incentive plan under which our equity securities are authorized for issuance to our employees, directors and consultants. Our share-based compensation plan is described below.

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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 cash awards, performance shares, performance units, deferred compensation awards or other share-based awards to employees, directors and consultants. On November 8, 2012, our shareholders approved an amendment to the Equity Incentive Plan to, among other things, (i) increase the aggregate number of shares of common stock reserved for issuance under the Equity Incentive Plan by 900,000 shares and increase the maximum number of shares that may be issued pursuant to incentive stock options, (ii) remove a 500,000-share limit on the number of shares that may be issued upon settlement of restricted stock units and other full-value awards and (iii) reapprove the Internal Revenue Code Section 162(m) performance criteria and award limits of the Equity Incentive Plan to permit us to continue to grant awards to key officers that qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. As of September 30, 2012, the Equity Incentive Plan provided for the issuance of a maximum of 5,886,000 shares, of which 159,000 shares of common stock were then available for future issuance. The shares available for future issuance excluded 63,000 shares issuable upon settlement of restricted stock units with performance vesting provisions that were approved by the Board of Directors but are deemed not to have been granted for accounting purposes in accordance with Accounting Standards Codification ("ASC") 718-10-55-95. See "Restricted Stock Unit Awards (Performance Vesting)" section in this Note for additional information. Shares that are canceled or forfeited from an award and shares withheld in satisfaction of tax withholding obligations are again available for issue under the Equity Incentive Plan.

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.

Share-Based Compensation

The following table summarizes total share-based compensation expense, net of tax, related to restricted stock units during the three and six months ended September 30, 2012 and 2011, which is included in our condensed consolidated statements of income (in thousands, except per share data):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Cost of revenues	$222	$316	$445	$511
Research and development	254	203	554	415
Sales and marketing	584	429	1,272	927
General and administrative	649	614	1,240	829
Share-based compensation expense before income taxes	1,709	1,562	3,511	2,682
Income tax benefit	(613)	(544)	(1,257)	(933)
Total share-based compensation expense after income taxes	$1,096	$1,018	$2,254	$1,749
Net impact of share-based compensation on:				
Basic net income per share	$0.05	$0.05	$0.10	$0.08
Diluted net income per share	$0.05	$0.05	$0.10	$0.08

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 September 30, 2012 and March 31, 2012 were $174,000 and $139,000, respectively, which were included in inventories on our condensed consolidated balance sheets.

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 September 30, 2012 and 2011 were $428,000 and $51,000, respectively, and for the six months ended September 30, 2012 and 2011 were $1.1 million and $486,000, respectively.

Stock Options

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. We have not granted any stock options since the beginning of fiscal 2007 and we did not grant stock options during the three and six months ended September 30, 2012. We have recognized compensation expense during the requisite service period of the stock option. As of September 30, 2012, 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 September 30, 2012 and the changes during the six-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, 2012	282,000	$ 15.21		
Granted	-	-		
Exercised	(36,000)	7.39		
Canceled or forfeited	-	-		
Outstanding at September 30, 2012	246,000	$ 16.33	1.33	$ 4,827
Vested and expected to vest at September 30, 2012	246,000	$ 16.33	1.33	$ 4,827
Exercisable at September 30, 2012	246,000	$ 16.33	1.33	$ 4,827

The aggregate intrinsic value in the table above represents the pre-tax intrinsic value, based on our closing stock price as of September 28, 2012, (the last trading day for the quarterly period ended September 30, 2012), 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 September 30, 2012 and 2011 was $537,000 and $994,000, respectively, and during the six months ended September 30, 2012 and 2011 was $1.0 million and $1.9 million, respectively. Cash proceeds from stock options exercised during the three months ended September 30, 2012 and 2011 were $184,000 and $202,000, respectively, and during the six months ended September 30, 2012 and 2011 were $261,000 and $430,000, respectively.

Restricted Stock Units

Since fiscal 2007, we grant restricted stock unit awards to employees and directors as part of our share-based compensation program. Awards of restricted stock units may be either grants of time-based or performance-based restricted stock units that are issued at no cost to the recipient, as described below. From time to time, restricted stock unit awards granted to employees may 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.

Restricted Stock Unit Awards (Time Vesting)

Restricted stock unit awards (time vesting) entitle holders to receive shares of common stock at the end of a specified period of time. For restricted stock unit awards (time vesting), vesting 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 service vesting conditions are not met, unvested restricted stock unit awards (time vesting) will be forfeited. Generally, the restricted stock unit awards (time vesting) vest according to one of the following time-based vesting schedules:

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

The fair value of restricted stock unit awards (time vesting) 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 September 30, 2012, the total unrecognized compensation expense related to restricted stock unit awards (time vesting) granted amounted to $22.0 million, which is expected to be recognized over a weighted average service period of 2.1 years.

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Restricted Stock Unit Awards (Performance Vesting)

Starting in fiscal 2013, we also grant restricted stock unit awards (performance vesting), which entitle holders to receive shares of common stock based on performance-based vesting criteria. For restricted stock unit awards (performance vesting), vesting is based on our achievement of corporate annual performance targets. During the first quarter of fiscal 2013, our Board of Directors approved the grant of 84,000 shares of restricted stock unit awards (performance vesting), of which approximately 21,000 shares have been granted. Because each annual performance target is set at the start of each respective single-fiscal year performance period, only 25% of the total restricted stock unit awards (performance vesting) are deemed granted each year over the four-year period in accordance with ASC 718-10-55-95. Accordingly, 75% of the total restricted stock unit awards (performance vesting) approved have not been granted as of September 30, 2012 pursuant to ASC 718-10-55-95. The performance periods for the fiscal 2013 grants run from April 1, 2012 through March 31, 2016, consisting of four one-year performance periods. Approximately 25% of the total 84,000 shares approved by the Board of Directors will be granted each year over a four-year period. Each grant has a vesting term of approximately one year upon: (1) achievement of certain pre-established corporate annual performance-related goals, as established by the Compensation Committee; and (2) the grantee's satisfying service requirements through the vesting period. The fiscal 2013 performance target was established at the grant date following ASC 718-10-55-95 and the aggregate estimated grant date fair value was $752,000 or $35.62 per share based on the closing market price of our common stock on the date of grant. The number of vested restricted stock unit awards (performance vesting) is determined at the end of each annual performance period.

The fair value of our restricted stock unit awards (performance vesting) used in our expense recognition method is measured based on the number of shares granted, the closing market price of our common stock on the date of grant and based on an estimate of the probability of the achievement of the performance goals. We recognize any related share-based compensation expense ratably over the service period based on the most probable outcome of the performance condition. The amount of share-based compensation expense recognized in any one period can vary based on the attainment or expected attainment of the performance goals. If such performance goals are not ultimately met, no compensation expense is recognized and any previously recognized compensation expense is reversed. As of September 30, 2012, the total unrecognized compensation expense related to restricted stock unit awards (performance vesting) granted amounted to $360,000, which is expected to be recognized over a weighted average service period of 0.6 years.

Restricted Stock Unit Activity

The following table summarizes restricted stock unit activity for the six months ended September 30, 2012:

	Time-Based Restricted Stock Units		Performance-Based Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value(1)	Number of Shares	Weighted Average Grant Date Fair Value(1)
Nonvested at March 31, 2012	1,120,000	$24.06	-	$-
Granted(2)	180,000	35.83	21,000	35.62
Vested(3)	(247,000)	23.41	-	-
Canceled or forfeited	(18,000)	25.93	-	-
Nonvested at September 30, 2012	1,035,000	$26.23	21,000	$35.62

(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 shares granted for restricted stock unit awards (performance vesting) do not include the awards approved by the Board of Directors during the period that are deemed not to have granted in accordance with ASC 718-10-55-95.
(3) 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 time-based restricted stock units vested during the three months ended September 30, 2012 and 2011 was $1.8 million and $533,000, respectively, and during the six months ended September 30, 2012 and 2011 was $8.7 million and $5.9 million, respectively. The total grant date fair value of time-based restricted stock units vested during the three months ended September 30, 2012 and 2011 was $1.1 million and $506,000, respectively, and during the six months ended September 30, 2012 and 2011 was $5.8 million and $4.5 million, respectively.

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NOTE 11. SHAREHOLDERS' EQUITY

Share Repurchase Program

In August 2011, the Board of Directors authorized the repurchase of up to an aggregate of $40.0 million of our common stock. In January 2012, the Board of Directors approved a $15.0 million increase to the Company's existing share repurchase program, to a total of $55.0 million. Since the share repurchase program began, through September 30, 2012, we have repurchased 1.2 million shares of our common stock at a total cost of $27.3 million. As of September 30, 2012, $27.7 million of our common stock may yet be purchased under such authorization. The repurchases are made from time to time on the open market at prevailing market prices or in negotiated transactions off the market. Repurchased shares are retired. During the three and six months ended September 30, 2012, we did not repurchase any of our common stock.

Common Stock Warrants

At September 30, 2012 and March 31, 2012, there were 30,000 warrants outstanding, of which 8,000 shares were vested, to purchase common stock at a weighted average exercise price of $3.00 per share, expiring in fiscal years 2016 through 2017. The fair value of the warrants issued were determined using the Black-Scholes option-pricing model and are amortized over their estimated useful life, of approximately ten years, as an intangible asset. The warrants vest at a rate of 20% annually from their issuance dates and have a term of five years.

NOTE 12. 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, restricted stock units and warrants.

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 September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Numerator:				
Net income	$12,909	$3,321	$15,773	$5,535
Denominator:				
Weighted average common shares outstanding - basic	21,920,000	22,290,000	21,869,000	22,484,000
Weighted average effect of dilutive securities:				
Stock options	107,000	123,000	107,000	156,000
Restricted stock units	252,000	142,000	277,000	201,000
Warrants	27,000	9,000	27,000	9,000
Weighted average common shares outstanding - diluted	22,306,000	22,564,000	22,280,000	22,850,000
Net income per share:				
Basic net income per share	$0.59	$0.15	$0.72	$0.25
Diluted net income per share	$0.58	$0.15	$0.71	$0.24

Stock options and warrants are excluded from the computation of diluted weighted average shares outstanding if the exercise price of the stock options and warrants is greater than the average market price of our common stock during the period because the inclusion of these stock options and warrants would be antidilutive to net income per share. There were no stock options and warrants excluded from the computation of diluted weighted average shares outstanding during the three and six months ended September 30, 2012 and 2011.

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 September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Weighted average number of shares underlying antidilutive restricted stock units	-	264,000	101,000	219,000

If the performance criteria for our restricted stock unit awards (performance vesting) are achieved, these awards will be considered outstanding for the purpose of computing diluted net income per share if the effect is dilutive. Starting with the first quarter of fiscal 2013, we granted 21,000 restricted stock unit awards (performance vesting), with vesting based on the achievement of certain pre-established corporate annual performance related goals. Because the performance criteria for our restricted stock unit awards (performance vesting) were not achieved during the three and six months ended September 30, 2012, these awards were not included in the diluted net income per share calculation.

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NOTE 13. INCOME TAXES

During the three months ended September 30, 2012 and 2011, our income tax provision was $8.0 million, based on an effective tax rate of 38%, and $1.9 million, based on an effective tax rate of 37%, respectively. During the six months ended September 30, 2012 and 2011, our income tax provision was $9.7 million, based on an effective tax rate of 38%, and $3.2 million, based on an effective tax rate of 37%, respectively. The effective tax rates during the three and six months ended September 30, 2012, as compared to the three and six months ended September 30, 2011, increased primarily due to a discrete tax expense of approximately $6.7 million due to a gain from our legal settlement with Cepheid during the second quarter of fiscal 2013. During the three and six months ended September 30, 2012, our effective tax rates was impacted by the expiration of the federal research and development tax credit, partially offset by increased federal domestic production tax benefits, as compared to the three and six months ended September 30, 2011.

We did not have any unrecognized tax benefits as of September 30, 2012 and March 31, 2012. During the three and six months ended September 30, 2012 and 2011, we did not recognize any interest or penalties related to unrecognized tax benefits.

NOTE 14. 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 and services provided by market and customer group. For the products that we manufacture and sell, 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, or decision making group, 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 and hospital laboratories. Starting in the first quarter of fiscal 2013, we also began to serve the pharmaceutical clinical trial market. 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 VetScan hematology instruments and related reagent kits, VetScan VSpro coagulation and specialty analyzers and related consumables, VetScan i-STAT analyzers and related VetScan i-STAT consumables and rapid tests. During fiscal 2011, we began developing Abaxis Veterinary Reference Laboratories ("AVRL"), a full-service laboratory testing facility, based in Olathe, Kansas. In October 2011, we began operating and providing veterinary reference laboratory diagnostic and consulting services for veterinarians in the United States through AVRL.

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Total Revenues, Cost of Revenues and Gross Profit by Segment

The table below summarizes revenues, cost of revenues and gross profit from our two operating segments and from certain unallocated items for the three and six months ended September 30, 2012 and 2011 (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Medical Market	$7,874	$7,333	$16,290	$14,489
Veterinary Market	34,939	31,548	67,434	59,217
Other(1)	1,445	1,144	2,548	2,322
Total revenues	44,258	40,025	86,272	76,028
Cost of revenues:				
Medical Market	3,311	3,323	6,686	6,666
Veterinary Market	16,173	13,017	30,211	25,421
Other(1)	1,651	1,664	3,403	2,697
Total cost of revenues	21,135	18,004	40,300	34,784
Gross profit:				
Medical Market	4,563	4,010	9,604	7,823
Veterinary Market	18,766	18,531	37,223	33,796
Other(1)	(206)	(520)	(855)	(375)
Gross profit	$23,123	$22,021	$45,972	$41,244

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

NOTE 15. REVENUES BY PRODUCT AND SERVICE CATEGORY AND GEOGRAPHIC REGION AND SIGNIFICANT CONCENTRATIONS

Revenue Information

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

	Three Months Ended September 30,		Six Months Ended September 30,	
Revenues by Product and Service Category	2012	2011	2012	2011
Instruments(1)	$11,607	$8,756	$21,487	$16,285
Consumables(2)	29,412	29,504	58,894	56,211
Other products and services(3)	3,202	1,718	5,816	3,447
Product and service revenues, net	44,221	39,978	86,197	75,943
Development and licensing revenue	37	47	75	85
Total revenues	$44,258	$40,025	$86,272	$76,028

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

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

(3) Other products and services include veterinary reference laboratory diagnostic and consulting services.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
Revenues by Geographic Region	2012	2011	2012	2011
North America	$35,915	$31,985	$69,079	$61,693
Europe	6,493	6,628	13,709	11,810
Asia Pacific and rest of the world	1,850	1,412	3,484	2,525
Total revenues	$44,258	$40,025	$86,272	$76,028

Significant Concentrations

During the three months ended September 30, 2012, one distributor in the United States, Animal Health International, accounted for 13% of our total worldwide revenues. During the three months ended September 30, 2011, one distributor in the United States, DVM Resources, accounted for 10% of our total worldwide revenues. During the six months ended September 30, 2012, one distributor in the United States, Animal Health International, accounted for 13% of our total worldwide revenues. During the six months ended September 30, 2011, one distributor in the United States, DVM Resources, accounted for 10% of our total worldwide revenues. Animal Health International was formed in 2011 from two animal health companies, which included Walco International, Inc., d/b/a DVM Resources.

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At September 30, 2012, our total receivables balance includes a one-time payment of $17.3 million from Cepheid as part of our settlement related to a patent infringement litigation. The receivable from Cepheid accounted for 35% of our total receivables balance. At September 30, 2012, one distributor in the United States accounted for 11% of our total receivables balance. At March 31, 2012, one distributor in the United States accounted for 19% of our total receivables balance.

NOTE 16. SUBSEQUENT EVENTS

On October 26, 2012, the Company entered into an Exclusive Agreement (the "Abbott Agreement") with Abbott Point of Care Inc. ("Abbott"), which will take effect on January 2, 2013. Pursuant to the Abbott Agreement, the Company granted to Abbott the exclusive right to sell and distribute in the United States and China (including Hong Kong) the Company's Piccolo Xpress chemistry analyzer and associated consumables in the professionally-attended human healthcare market, but excluding sales and distribution to a certain specified customer and specified customer segments in the Abbott territories. The initial term of the Abbott Agreement ends on December 31, 2017, and after the initial term, the Abbott Agreement renews automatically for successive one-year periods unless terminated by either party based upon a notice of non-renewal six months prior to the then-current expiration date. Under the Abbott Agreement, Abbott will be responsible for marketing and promoting the Piccolo Xpress products in the specified territory, while the Company will have certain responsibilities for providing technical support and warranty services to Abbott in support of those marketing and sales efforts.

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 our current views with respect to future events and financial performance. In this report, the words "will," "anticipates," "believes," "expects," "intends," "plans," "future," "projects," "est "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 relate to the vulnerability of our manufacturing operations to potential interruptions and delays, fluctuations in our quarterly results of operations and difficulty in predicting future results, our dependence on certain sole or limited source suppliers, market acceptance of our products and services and the continuing development of our products and services, protection of Abaxis' intellectual property or claims of infringement of intellectual property asserted by third parties, risks involved in carrying of inventory, development of our sales, marketing and distribution experience, and our ability to attract, train and retain competent sales personnel, general market conditions, competition and other risks detailed under "Risk Factors" in this Quarterly Report on Form 10-Q. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We assume no obligation to update any forward-looking statements as circumstances change.

BUSINESS OVERVIEW

Company Description

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. In October 2011, Abaxis also began providing veterinary reference laboratory diagnostic and consulting services for veterinarians

through Abaxis Veterinary Reference Laboratories ("AVRL").

Our corporate headquarters are located in Union City, California, from which we conduct our manufacturing, warehousing, research and development, regulatory, sales and marketing and administrative activities. We market and sell our products worldwide by maintaining direct sales forces and through independent distributors. Our sales force is primarily located in the United States. Abaxis Europe GmbH, our wholly-owned subsidiary in Germany since July 2008, markets and distributes diagnostic systems for medical and veterinary uses in the European market.

Financial Results. In the second quarter of fiscal 2013, total revenues were $44.3 million, an increase of 11% over last year's comparable quarter. The growth in revenues was primarily driven by growth in revenues from instrument sales, which were $11.6 million, an increase of 33% when compared to last year's quarter. Gross profit in the second quarter of fiscal 2013 was $23.1 million, an increase of 5% over last year's comparable quarter primarily attributable to changes in the product mix in our veterinary market.

Sales and marketing expenses were $11.5 million in the second quarter of fiscal 2013 and $9.3 million for the same period last year, an increase of $2.2 million, or 23%. The increase in sales and marketing expenses was primarily due to increased costs related to headcount and promotional and marketing spending to support AVRL and the ongoing growth of our veterinary business in North America. General and administrative expenses were $4.6 million in the second quarter of fiscal 2013 and $4.5 million for the same period last year, an increase of 3%. The increase was primarily due to an increase in legal expenses related to pursuing our Cepheid patent infringement case and an increase in personnel-related costs, partially offset by start-up costs to develop AVRL during the second quarter of fiscal 2012.

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Net income in the second quarter of fiscal 2013 was $12.9 million, an increase of $9.6 million from $3.3 million for the same period last year, due primarily to a gain from our legal settlement with Cepheid of $17.3 million, offset in part by an increased income tax provision of $6.7 million, resulting from such settlement and the increased expenses set forth above. Our diluted earnings per share increased to $0.58 in the second quarter of fiscal 2013 from $0.15 in the second quarter of fiscal 2012.

Cash, cash equivalents and investments increased by $9.6 million during the six months ended September 30, 2012 to a total of $100.6 million at September 30, 2012. The primary sources of cash and cash equivalents during the six months ended September 30, 2012 were operating cash flows of $13.4 million.

Products and Services. We manage our business in two operating segments, the medical market and veterinary market, as described below. See “Segment Results” in this section for a detailed discussion of financial results.

Medical Market. We serve a worldwide customer group in the medical market 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 and hospital laboratories. Starting in the first quarter of fiscal 2013, we also began to serve the pharmaceutical clinical trial market. Beginning in January 2013, pursuant to our Exclusive Agreement (the “Abbott Agreement”) with Abbott Point of Care Inc. (“Abbott”), Abbott will have the exclusive right to sell and distribute in the United States and China (including Hong Kong) our Piccolo Xpress chemistry analyzer and associated consumables in the professionally-attended human healthcare market in this territory, excluding sales and distribution to Catapult Health LLC and specified customer segments, including pharmacy and retail store clinics, shopping malls and contract research organizations (CROs) and cruise ship lines. We maintain the right to sell and distribute these products outside of this territory. Under the Abbott Agreement, we have certain responsibilities for providing technical support and warranty services to Abbott in support of its marketing and sales efforts. The initial term of the Abbott Agreement ends on December 31, 2017, and after the initial term, the Abbott Agreement renews automatically for successive one-year periods unless terminated by either party based upon a notice of non-renewal six months prior to the then-current expiration date.

The products manufactured and sold in the medical market segment primarily consist of Piccolo chemistry analyzers and medical reagent discs. The Piccolo chemistry analyzers provide on the spot routine multi-chemistry and electrolyte results using a small patient sample size in any treatment setting. The Piccolo profiles are used with the Piccolo chemistry analyzers and are packaged as single-use medical reagents, configured to aid in disease diagnosis or monitor disease treatment.

Veterinary Market. Our VetScan products serve a worldwide customer group in the veterinary market 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. Our product and service offerings in the veterinary market are described as follows:

Point-of-Care Blood Chemistry Analyzers. The products manufactured and sold in this segment primarily consist of VetScan chemistry analyzers and veterinary reagent discs. The VetScan is a chemistry, electrolyte, immunoassay and blood gas analyzer that delivers results from a sample of whole blood, serum or plasma. The VetScan profiles are packaged as single-use plastic veterinary reagent discs. Each reagent disc contains a diluent and all the profiles necessary to perform a complete multi-chemistry blood analysis.

Hematology. We offer two types of VetScan hematology instruments and related reagent kits, the VetScan HM5 and VetScan HM2. The VetScan HM5 is a fully automated five-part cell counter offering a comprehensive 22-parameter complete blood count ("CBC") analysis, including direct eosinophil counts and eosinophil percentage, specifically designed for veterinary applications. The VetScan HM2 is a fully automated three-part cell counter offering an 18-parameter CBC analysis, including a 3-part white blood cell differential (lymphocytes, monocytes and granulocytes).

Coagulation and Specialty. The VetScan VSpro coagulation and specialty analyzers and related consumables assist in the diagnosis and evaluation of suspected bleeding disorders, toxicity/poisoning, evaluation of disseminated intravascular coagulation, hepatic disease and in monitoring therapy and the progression of disease states. We also offer the VetScan VSpro Fibrinogen Test, which is used with the VSpro coagulation and specialty analyzer, to provide quantitative in-vitro determination of fibrinogen levels in equine platelet poor plasma from a citrated stabilized whole blood sample.

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i-STAT. The VetScan i-STAT analyzers and related VetScan i-STAT consumables are used to deliver accurate blood gas, electrolyte, chemistry and hematology results in minutes from 2-3 drops of whole blood.

Rapid Tests. Our VetScan rapid tests include the following: Canine Heartworm Rapid Test, a highly sensitive and specific test for the detection of Dirofilaria immitis in canine or feline whole blood, serum or plasma; Canine Lyme Rapid Test, which detects Borrelia burgdorferi in canine whole blood, serum or plasma; Canine Parvovirus Rapid Test, a qualitative test for the detection of canine parvovirus antigen in feces; and Giardia Rapid Test, which detects giardiasis, a gastrointestinal infection caused by the protozoan parasite Giardia.

Abaxis Veterinary Reference Laboratories. During fiscal 2011, we began developing AVRL, a full-service laboratory testing facility, based in Olathe, Kansas. In October 2011, we began providing veterinary reference laboratory diagnostic and consulting services for veterinarians in the United States through AVRL. AVRL also focuses on providing specialty and esoteric testing and analysis. This service complements our full suite of on-site laboratory instrumentation and rapid diagnostics for in hospital routine, critical care and emergency medicine laboratory needs.

Factors that May Impact Future Performance

Our industry is impacted by numerous competitive, regulatory and other significant factors. 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. Product sales in any quarter are generally dependent on orders booked and shipped in that quarter. As a result, any such revenues 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 achieve profitability in AVRL 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, 2012.

Revenue Recognition. Our primary customers are distributors and direct customers in both the medical and veterinary markets. Service revenues are primarily generated from veterinary reference laboratory diagnostic and consulting services for veterinarians. Revenues from product sales and services, net of estimated sales allowances, discounts and

rebates, are recognized when (i) evidence of an arrangement exists, (ii) upon shipment of the products or rendering of services 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. From time to time, we offer discounts on AVRL services for a specified period as incentives. Discounts are reductions to invoiced amounts within a specified period and are recorded at the time services are performed. Net service revenues are recognized at the time services are performed.

Amounts collected in advance of revenue recognition are recorded as a current or non-current deferred revenue liability based on the time from the balance sheet date to the future date of revenue recognition. We recognize revenues associated with extended maintenance agreements ratably over the life of the contract.

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Multiple Element Revenue Arrangements. On April 1, 2011, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2009-13, Multiple-Deliverable Revenue Arrangements, an amendment to Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition (ASU 2009-13). We elected to apply the amendment prospectively to new or materially modified revenue arrangements after its effective date. The FASB amended the accounting standards for certain multiple deliverable revenue arrangements. A multiple-element arrangement includes the sale of one or more tangible product offerings with one or more associated services offerings, each of which are individually considered separate units of accounting. The determination of our units of accounting did not change with the adoption of the new revenue recognition guidance and as such we allocate revenues to each element in a multiple-element arrangement based upon the relative selling price of each deliverable. When applying the relative selling price method, we determine the selling price for each deliverable using vendor-specific objective evidence ("VSOE") of selling price, if it exists, or third-party evidence ("TPE") of selling price. If neither VSOE nor TPE of selling price exist for a deliverable, we use our best estimate of selling price for that deliverable. Revenue allocated to each element is then recognized when all revenue recognition criteria are met for each element.

Our sales arrangements contain multiple element revenue arrangements in which a customer may purchase a combination of instruments, consumables or extended maintenance agreements. Additionally, we provide incentives in the form of free goods or extended maintenance agreements to customers in connection with the sale of our instruments. Pursuant to the guidance of ASU 2009-13, revenues from such sales are allocated separately to the instruments, consumables, extended maintenance agreements and incentives based on the relative selling price method. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately. Revenues allocated to each element are then recognized when the basic revenue recognition criteria, as described above, are met for each element. Revenues associated with incentives in the form of free goods are deferred until the goods are shipped to the customer. Revenues associated with incentives in the form of extended maintenance agreements are deferred and recognized ratably over the life of the maintenance contract. Incentives in the form of extended maintenance agreements are our most significant multiple element arrangement.

Starting in fiscal 2012, we participate in selling arrangements in the veterinary market that include multiple deliverables, such as instruments, consumables and service agreements associated with our veterinary reference laboratory. Under these arrangements, we recognize revenue upon delivery of the product or performance of the service during the term of the service contract when the basic revenue recognition criteria, as described above, is met for each element. We allocate revenues to each element based on the relative selling price of each deliverable. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately.

From time to time, we offer customer incentives comprising of arrangements with customers to include discounts on future sales of services associated with our veterinary reference laboratory. We apply judgment in determining whether future discounts are significant and incremental. When the future discount offered is not considered significant and incremental, we do not account for the discount as an element of the original arrangement. To determine whether a discount is significant and incremental, we look to the discount provided in comparison to standalone sales of the same product to similar customers, the level of discount provided on other elements in the arrangement, and the significance of the discount to the overall arrangement. If the discount in the multiple element arrangement approximates the discount typically provided in standalone sales, that discount is not considered incremental. During the three and six months ended September 30, 2012, our customer incentive programs with future discounts were not significant.

Customer Programs. From time to time, we offer customer marketing and incentive programs. Our most significant customer programs are described as follows:

Instrument Trade-In Programs. 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 based on the relative selling price method according to the policies described above.

Instrument Rental Programs. 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 revenues 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 revenues according to the policies described above. Rental income, if any, are also recorded as revenue according to the policies described above.

Distributor and Customer Rebate Programs. We periodically offer distributor pricing rebates and customer incentives, such as cash rebates, from time to time. The distributor pricing rebates are offered to distributors upon meeting the sales volume requirements during a qualifying period and 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 and are recorded as a reduction to gross revenues.

Royalty Revenues. 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.

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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. When determining fair value, we consider the principal or most advantageous market in which we would transact and consider assumptions that market participants would use when pricing the asset or liability. The fair value hierarchy 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 September 30, 2012, 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 September 30, 2012, our available-for-sale investments in certificates of deposits, corporate bonds and municipal bonds, totaled $8.1 million, using Level 2 inputs, based on market pricing and other observable market inputs for similar securities obtained from various third party data providers.

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 September 30, 2012, 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 September 30, 2012, we also had $38.4 million in investments classified as held-to-maturity and carried at amortized cost.

Investment in Unconsolidated Affiliate. In February 2011, we purchased a 15% equity ownership interest in Scandinavian Micro Biodevices APS ("SMB"), for $2.8 million in cash. We use the equity method to account for our investment in this entity that we do not control, but where we have the ability to exercise significant influence. Equity method investments are recorded at original cost and adjusted periodically to recognize (1) our proportionate share of

the investees' net income or losses after the date of investment, (2) additional contributions made and dividends or distributions received, and (3) impairment losses resulting from adjustments to net realizable value. We eliminate all intercompany transactions in accounting for our equity method investments. We record our proportionate share of the investees' net income or losses in "Interest and other income (expense), net" on the consolidated statements of income. At September 30, 2012, our investment in unconsolidated affiliate totaled $2.6 million.

We assess the potential impairment of our equity method investments when indicators such as a history of operating losses, a negative earnings and cash flow outlook, and the financial condition and prospects for the investee's business segment might indicate a loss in value. To date, since our investment in SMB, we have not recorded an impairment charge on this investment.

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, depending on the type of product. The estimated contractual warranty obligation is recorded when the related revenues are 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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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.

As of September 30, 2012, our current portion of warranty reserves for instruments and reagent discs totaled $1.0 million and our non-current portion of warranty reserves for instruments totaled $437,000, which reflects our estimate of warranty obligations based on the estimated product failure rates, the number of instruments in standard warranty, estimated repair and related costs of instruments, and an estimate of defective reagent discs and replacement and related costs of a defective reagent disc.

Each quarter, we reevaluate our estimate of warranty reserves, including our assumptions. During the six months ended September 30, 2012, we recorded an adjustment to pre-existing warranties of $290,000, which reduced our warranty reserves and our cost of revenues, based on both historical and projected product performance rates of instruments.

Management periodically evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. If an unusual performance rate related to warranty claims is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. 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 such 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. We did not recognize any impairment charges on long-lived assets during the three or six months ended September 30, 2012.

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 expected 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 September 30, 2012 and March 31, 2012, we had no significant 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 and six months ended September 30, 2012 and 2011, we did not recognize any interest or penalties related to uncertain tax positions in the consolidated statements of income, and at September 30, 2012 and March 31, 2012, we had no accrued interest or penalties.

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

We have not granted any stock options since the beginning of fiscal 2007 and we did not grant stock options during the three and six months ended September 30, 2012. We have recognized compensation expense during the requisite service period of the stock option. As of September 30, 2012, we had no unrecognized compensation expense related to stock options granted.

Since fiscal 2007, we grant restricted stock unit awards to employees and directors as part of our share-based compensation program. Equity award grants to consultants were insignificant. Awards of restricted stock units may be either grants of time-based or performance-based restricted stock units that are issued at no cost to the recipient, as described below.

For restricted stock unit awards (time vesting), the fair value of restricted stock unit awards (time vesting) 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. Share-based compensation expense is recognized net of an estimated forfeiture rate, over the requisite service period of the award. As a result, if factors change and we use different assumptions, our share-based compensation expense could be materially different in the future.

We grant restricted stock unit awards (performance vesting) starting in fiscal 2013. During the first quarter of fiscal 2013, our Board of Directors approved the grant of 84,000 shares of restricted stock unit awards (performance vesting), of which approximately 21,000 shares have been granted. Because each annual performance target is set at the start of each respective single-fiscal year performance period, only 25% of the total restricted stock unit awards (performance vesting) are deemed granted each year over the four-year period in accordance with ASC 718-10-55-95. Accordingly, 75% of the total restricted stock unit awards (performance vesting) approved have not been granted as of September 30, 2012 pursuant to ASC 718-10-55-95. The performance periods for the fiscal 2013 grants run from April 1, 2012 through March 31, 2016, consisting of four one-year performance periods. Approximately 25% of the total 84,000 shares approved by the Board of Directors will be granted each year over a four-year period. Each grant has a vesting term of approximately one year upon: (1) achievement of certain pre-established corporate annual performance-related goals, as established by the Compensation Committee of our Board of Directors; and (2) the grantee's satisfying service requirements through the vesting period. The fiscal 2013 performance target was established at the grant date following ASC 718-10-55-95 and the aggregate estimated grant date fair value was $752,000 or $35.62 per share based on the closing market price of our common stock on the date of grant. The number of vested restricted stock unit awards (performance vesting) is determined at the end of each annual performance period.

The fair value of our restricted stock unit awards (performance vesting) used in our expense recognition method is measured based on the number of shares granted, the closing market price of our common stock on the date of grant and based on an estimate of the probability of the achievement of the performance goals. We recognize any related share-based compensation expense ratably over the service period based on the most probable outcome of the performance condition. The amount of share-based compensation expense recognized in any one period can vary

based on the attainment or expected attainment of the performance goals. If such performance goals are not ultimately met, no compensation expense is recognized and any previously recognized compensation expense is reversed.

Share-based compensation expense resulted in a material impact on our earnings per share and on our condensed consolidated financial statements for fiscal 2012 and during the three and six months ended September 30, 2012. The impact of share-based compensation expense on our condensed consolidated financial results is disclosed in Note 10, "Equity Compensation Plans and Share-Based Compensation" in the Notes to Condensed Consolidated Financial Statements 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. In October 2011, Abaxis began providing veterinary reference laboratory diagnostic and consulting services for veterinarians. We operate in two segments: (i) the medical market and (ii) the veterinary market. See "Segment Results" in this section for a detailed discussion.

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Total Revenues

Revenues by Geographic Region and by Product and Service Category. Revenues by geographic region based on customer location and revenues by product and service category during the three and six months ended September 30, 2012 and 2011 were as follows (in thousands, except percentages):

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
Revenues by Geographic Region	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
North America	$35,915	$31,985	$3,930	12 %	$69,079	$61,693	$7,386	12 %
Percentage of total revenues	81 %	80 %			80 %	81 %		
Europe	6,493	6,628	(135)	(2)%	13,709	11,810	1,899	16 %
Percentage of total revenues	15 %	17 %			16 %	16 %		
Asia Pacific and rest of the world	1,850	1,412	438	31 %	3,484	2,525	959	38 %
Percentage of total revenues	4 %	3 %			4 %	3 %		
Total revenues	$44,258	$40,025	$4,233	11 %	$86,272	$76,028	$10,244	13 %

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
Revenues by Product and Service Category	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
Instruments(1)	$11,607	$8,756	$2,851	33 %	$21,487	$16,285	$5,202	32 %
Percentage of total revenues	26 %	22 %			25 %	21 %		
Consumables(2)	29,412	29,504	(92)	<(1)%	58,894	56,211	2,683	5 %
Percentage of total revenues	67 %	74 %			68 %	74 %		
Other products and services(3)	3,202	1,718	1,484	86 %	5,816	3,447	2,369	69 %
Percentage of total revenues	7 %	4 %			7 %	5 %		
Product and service revenues, net	44,221	39,978	4,243	11 %	86,197	75,943	10,254	14 %
Percentage of total revenues	100 %	100 %			100 %	100 %		
Development and licensing revenue	37	47	(10)	(21)%	75	85	(10)	(12)%
Percentage of total revenues	<1%	<1%			<1%	<1%		
Total revenues	$44,258	$40,025	$4,233	11 %	$86,272	$76,028	$10,244	13 %

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

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

(3) Other products and services include veterinary reference laboratory diagnostic and consulting services.

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

North America. During the three months ended September 30, 2012, total revenues in North America increased by 12%, or $3.9 million, as compared to the same period in fiscal 2012. The change in total revenues in North America was primarily attributable to the following:

- Total sales of our Piccolo chemistry analyzers and medical reagent discs in North America (excluding sales to the U.S. government) increased by 3%, or $138,000, primarily due to an increase in the sales volume of Piccolo chemistry analyzers to various distributors, partially offset by a decrease in the sales volume of medical reagent discs resulting from inventory stock adjustments by distributors.

- Total sales of our Piccolo chemistry analyzers and medical reagent discs to the U.S. government decreased by 54%, or $550,000, primarily due to a decrease in the U.S. Military's needs for our products as a result of U.S. troops leaving Iraq in 2011.

- Total sales of our VetScan chemistry analyzers and veterinary reagent discs in North America increased by 6%, or $942,000, primarily due to higher average selling prices of VetScan chemistry analyzers and veterinary reagent discs.

- Total sales of our VetScan hematology instruments and hematology reagent kits in North America increased by 47%, or $1.7 million, primarily due to an increase in the sales volume of hematology instruments to various distributors.

- Total sales from our VetScan VSpro coagulation and specialty analyzers and related consumables, VetScan i-STAT analyzers and related consumables and VetScan rapid tests in North America increased by 7%, or $366,000, primarily due to an increase in the sales volume of VetScan rapid tests resulting from an expanded rapid test product line, including our Canine Lyme Rapid Test, introduced in March 2012.

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- Other product and service revenues in North America increased by 83%, or $1.3 million, primarily due to an increase in service revenues from veterinary reference laboratory diagnostic and consulting services provided by AVRL, which began operations in the third quarter of fiscal 2012.

Europe. During the three months ended September 30, 2012, total revenues in Europe decreased by 2%, or $135,000, as compared to the same period in fiscal 2012. Revenues from Piccolo chemistry analyzers and medical reagent discs increased by 96%, or $929,000, primarily due to (a) sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company and (b) an increase in the sales volume of medical reagent discs to various distributors. The increase in total revenues in Europe was partially offset by a net decrease in revenues of VetScan chemistry analyzers and veterinary reagent disc sales by 24%, or $1.2 million, primarily due to higher sales of veterinary reagent discs to a distributor in the second quarter of fiscal 2012 due to the timing of inventory purchases.

Asia Pacific and rest of the world. During the three months ended September 30, 2012, total revenues in Asia Pacific and rest of the world increased by 31%, or $438,000, as compared to the same period in fiscal 2012. The increase in total revenues in Asia Pacific and rest of the world was primarily attributable to sales of VetScan chemistry analyzers and veterinary reagent disc sales by 40%, or $321,000, primarily due to an increase in the sales volume of VetScan chemistry analyzers to various distributors.

Significant concentration. During the three months ended September 30, 2012, one distributor in the United States, Animal Health International, accounted for 13% of our total worldwide revenues. Animal Health International was formed in 2011 from two animal health companies, which included Walco International, Inc., d/b/a DVM Resources. During the three months ended September 30, 2011, one distributor in the United States, DVM Resources, accounted for 10% of our total worldwide revenues.

Six Months Ended September 30, 2012 Compared to Six Months Ended September 30, 2011

North America. During the six months ended September 30, 2012, total revenues in North America increased by 12%, or $7.4 million, as compared to the same period in fiscal 2012. The change in total revenues in North America was primarily attributable to the following:

- Total sales of our Piccolo chemistry analyzers and medical reagent discs in North America (excluding sales to the U.S. government) decreased by 1%, or $84,000, primarily due to a decrease in the sales volume of medical reagent discs resulting from inventory stock adjustments by distributors, partially offset by an increase in the sales volume of Piccolo chemistry analyzers to various distributors.

- Total sales of our Piccolo chemistry analyzers and medical reagent discs to the U.S. government decreased by 47%, or $951,000, primarily due to a decrease in the U.S. Military’s needs for our products as a result of U.S. troops leaving Iraq in 2011.

- Total sales of our VetScan chemistry analyzers and veterinary reagent discs sales in North America increased by 14%, or $4.0 million, primarily due to (a) an increase in the sales volume of VetScan chemistry analyzers due in part to additional sales personnel, (b) an increase in the sales volume of veterinary reagent discs resulting from an expanded installed base of our VetScan chemistry analyzers, and (c) higher average selling prices of VetScan chemistry analyzers and veterinary reagent discs.

- Total sales of our VetScan hematology instruments and hematology reagent kits in North America increased by 21%, or $1.5 million, primarily due to an increase in the sales volume of hematology instruments to various distributors.

- Total sales from our VSpro coagulation and specialty analyzers and related consumables, VetScan i-STAT analyzers and related consumables and VetScan rapid tests in North America increased by 7%, or $727,000, primarily due to an increase in the sales volume of VetScan i-STAT analyzers due in part to additional sales personnel and an increase in the sales volume of VetScan rapid tests resulting from an expanded rapid test product line, including our Canine Lyme Rapid Test, introduced in March 2012.

- Other product and service revenues in North America increased by 68%, or $2.2 million, primarily due to an increase in service revenues from veterinary reference laboratory diagnostic and consulting services provided by AVRL, which began operations in the third quarter of fiscal 2012.

Europe. During the six months ended September 30, 2012, total revenues in Europe increased by 16%, or $1.9 million, as compared to the same period in fiscal 2012. Revenues from Piccolo chemistry analyzers and medical reagent discs increased by 126%, or $2.6 million, primarily due to (a) sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company and (b) an increase in the sales of medical reagent discs to various distributors. The increase in total revenues in Europe was partially offset by a net decrease in revenues of VetScan chemistry analyzers and veterinary reagent disc sales by 11%, or $930,000, primarily due to higher sales of veterinary reagent discs to a distributor in the second quarter of fiscal 2012 due to the timing of inventory purchases.

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Asia Pacific and rest of the world. During the six months ended September 30, 2012, total revenues in Asia Pacific and rest of the world increased by 38%, or $959,000, as compared to the same period in fiscal 2012. Revenues from veterinary instruments increased by 61%, or $464,000, primarily due to an increase in the sales volume of VetScan chemistry analyzers to various distributors. Revenues from veterinary consumables increased by 28%, or $407,000, primarily due to an increase in the sales volume of veterinary reagent discs to various distributors.

Significant concentration. During the six months ended September 30, 2012, one distributor in the United States, Animal Health International, accounted for 13% of our total worldwide revenues. During the six months ended September 30, 2011, one distributor in the United States, DVM Resources, accounted for 10% of our total worldwide revenues.

Segment Results

Total Revenues, Cost of Revenues and Gross Profit by Segment. 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 and services provided by market and customer group.

Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011

The following table presents revenues, cost of revenues, gross profit and percentage of revenues by operating segments and from certain unallocated items for the three months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Three Months Ended September 30,				Change	
	2012	Percent of Revenues(1)	2011	Percent of Revenues(1)	Increase/ (Decrease)	Percent Change
Revenues:						
Medical Market	$7,874	100 %	$7,333	100 %	$541	7 %
Percentage of total revenues	18 %		18 %			
Veterinary Market	34,939	100 %	31,548	100 %	3,391	11 %
Percentage of total revenues	79 %		79 %			
Other(2)	1,445		1,144		301	26 %
Percentage of total revenues	3 %		3 %			
Total revenues	44,258		40,025		4,233	11 %
Cost of revenues:						
Medical Market	3,311	42 %	3,323	45 %	(12)	<(1) %
Veterinary Market	16,173	46 %	13,017	41 %	3,156	24 %
Other(2)	1,651		1,664		(13)	(1)%
Total cost of revenues	21,135		18,004		3,131	17 %
Gross profit:						
Medical Market	4,563	58 %	4,010	55 %	553	14 %
Veterinary Market	18,766	54 %	18,531	59 %	235	1 %
Other(2)	(206)		(520)		314	(60)%
Gross profit	$23,123		$22,021		$1,102	5 %

(1) The percentage reported is based on 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 September 30, 2012, total revenues in the medical market increased by 7% or $541,000, as compared to the same period in fiscal 2012. Total revenues from Piccolo chemistry analyzers increased by 43%, or $785,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily due to (a) an increase in the sales volume to various distributors in North America and (b) sales to an international medical supplies sourcing and support company in Europe to support a pharmaceutical clinical trial conducted by a biotechnology company. These increases were partially offset by a decrease in sales to the U.S. government due to a decrease in the U.S. Military's needs for our products as a result of U.S. troops leaving Iraq in 2011.

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Total revenues from medical reagent discs decreased by 5%, or $273,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable to (a) a decrease in the sales volume to distributors in North America resulting from inventory stock adjustments and (b) a decrease in sales to the U.S. government due to a decrease in the U.S. Military's needs for our products as a result of U.S. troops leaving Iraq in 2011. These decreases were partially offset by an increase in the sales volume of medical reagent discs to various distributors in Europe.

Gross Profit for Medical Market Segment

Gross profit for the medical market segment increased by 14%, or $553,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012. Gross profit percentages for the medical market segment during the three months ended September 30, 2012 and 2011 were 58% and 55%, respectively. In absolute dollars and as a percentage, the increase in gross profit for the medical market segment was primarily due to sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company.

Veterinary Market

Revenues for Veterinary Market Segment

During the three months ended September 30, 2012, total revenues in the veterinary market increased by 11%, or $3.4 million, as compared to the same period in fiscal 2012. Total revenues from veterinary instruments increased by 30%, or $2.1 million, during the three months ended September 30, 2012, primarily attributable to (a) higher average selling prices of VetScan chemistry analyzers in North America, (b) an increase in the sales volume of hematology instruments to various distributors in North America, and (c) an increase in the sales volume of VetScan chemistry analyzers to various distributors in Asia Pacific and rest of the world.

Total revenues from consumables in the veterinary market increased by 1%, or $181,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable to (a) higher average selling prices of veterinary reagent discs in North America and (b) an increase in the sales volume of VetScan rapid tests in North America resulting from an expanded rapid test product line, including our Canine Lyme Rapid Test, introduced in March 2012. These increases were partially offset by a decrease in veterinary reagent disc sales in Europe due to higher sales of veterinary reagent discs to a distributor in the second quarter of fiscal 2012 due to the timing of inventory purchases.

Total revenues from other products and services in the veterinary market increased by 323%, or $1.1 million, primarily attributable to veterinary reference laboratory diagnostic and consulting services provided by AVRL in North America beginning in the third quarter of fiscal 2012.

Gross Profit for Veterinary Market Segment

Gross profit for the veterinary market segment increased by 1%, or $235,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012. Gross profit percentages for the veterinary market segment during the three months ended September 30, 2012 and 2011 were 54% and 59%, respectively. In absolute dollars, the increase in gross profit for the veterinary market segment was primarily attributable to (a) an increase in the sales volume of VetScan chemistry analyzers and VetScan hematology instruments and (b) higher average selling prices of VetScan chemistry analyzers, veterinary reagent discs and hematology reagent kits. These increases in gross profit were partially offset by (a) a decrease in the sales volume of veterinary reagent discs, (b) an increase in freight costs to ship products, and (c) the cost of services for veterinary reference laboratory diagnostic and

consulting services provided by AVRL beginning in the third quarter of fiscal 2012. As a percentage of total revenues, the decrease in gross profit margin was primarily due to (a) a decrease in the sales volume of veterinary reagent discs, (b) an increase in the sales volume of our OEM supplied products, which have a lower margin contribution, and (c) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012.

Other

Gross profit in our other category increased by $314,000, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable an increase in revenue from Becton, Dickinson and Company for products using the Orbos Discrete Lyophilization Process, partially offset by costs on materials and overhead allocations on facilities, both related to our instrument repair and support center, which are not allocated to a particular segment.

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Six Months Ended September 30, 2012 Compared to Six Months Ended September 30, 2011

The following table presents revenues, cost of revenues, gross profit and percentage of revenues by operating segments and from certain unallocated items for the six months ended September 30, 2012 and 2011 (in thousands, except percentages):

	Six Months Ended September 30,				Change	
	2012	Percent of Revenues(1)	2011	Percent of Revenues(1)	Increase/ (Decrease)	Percent Change
Revenues:						
Medical Market	$16,290	100 %	$14,489	100 %	$1,801	12 %
Percentage of total revenues	19 %		19 %			
Veterinary Market	67,434	100 %	59,217	100 %	8,217	14 %
Percentage of total revenues	78 %		78 %			
Other(2)	2,548		2,322		226	10 %
Percentage of total revenues	3 %		3 %			
Total revenues	86,272		76,028		10,244	13 %
Cost of revenues:						
Medical Market	6,686	41 %	6,666	46 %	20	<1 %
Veterinary Market	30,211	45 %	25,421	43 %	4,790	19 %
Other(2)	3,403		2,697		706	26 %
Total cost of revenues	40,300		34,784		5,516	16 %
Gross profit:						
Medical Market	9,604	59 %	7,823	54 %	1,781	23 %
Veterinary Market	37,223	55 %	33,796	57 %	3,427	10 %
Other(2)	(855)		(375)		(480)	128 %
Gross profit	$45,972		$41,244		$4,728	11 %

(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 six months ended September 30, 2012, total revenues in the medical market increased by 12%, or $1.8 million, as compared to the same period in fiscal 2012. Total revenues from Piccolo chemistry analyzers increased by 58%, or $2.1 million, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily due to (a) an increase in the sales volume to various distributors in North America and (b) sales to an international medical supplies sourcing and support company in Europe to support a pharmaceutical clinical trial conducted by a biotechnology company. These increases were partially offset by a decrease in sales to the U.S. government due to a decrease in the U.S. Military's needs for our products as a result of U.S. troops leaving Iraq in 2011.

Total revenues from medical reagent discs decreased by 4%, or $461,000, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable to (a) a decrease in the sales volume to distributors in North America resulting from inventory stock adjustments and (b) a decrease in sales to the U.S.

government due to a decrease in the U.S. Military's needs for our products as a result of U.S. troops leaving Iraq in 2011. These decreases were partially offset by an increase in the sales volume of medical reagent discs to various distributors in Europe.

Gross Profit for Medical Market Segment

Gross profit for the medical market segment increased by 23%, or $1.8 million, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012. Gross profit percentages for the medical market segment during the six months ended September 30, 2012 and 2011 were 59% and 54%, respectively. In absolute dollars and as a percentage, the increase in gross profit for the medical market segment was primarily due to sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company.

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Veterinary Market

Revenues for Veterinary Market Segment

During the six months ended September 30, 2012, total revenues in the veterinary market increased by 14%, or $8.2 million, as compared to the same period in fiscal 2012. Total revenues from veterinary instruments increased by 25%, or $3.1 million, during the six months ended September 30, 2012, primarily attributable to (a) an increase in the sales volume of VetScan chemistry analyzers and VetScan i-STAT analyzers in North America, both due in part to additional sales personnel, (b) higher average selling prices of VetScan chemistry analyzers in North America, (c) an increase in the sales volume of hematology instruments to various distributors in North America, and (d) an increase in the sales volume of VetScan chemistry analyzers to various distributors in Asia Pacific and rest of the world.

Total revenues from consumables in the veterinary market increased by 7%, or $3.1 million, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable to (a) an increase in the sales volume of veterinary reagent discs resulting from an expanded installed base of our VetScan chemistry analyzers in North America, (b) higher average selling prices of veterinary reagent discs in North America, (c) an increase in the sales volume of VetScan rapid tests in North America resulting from an expanded rapid test product line, including our Canine Lyme Rapid Test, introduced in March 2012, and (c) an increase in the sales volume of veterinary reagent discs to various distributors in Asia Pacific and rest of the world. These increases were partially offset by a decrease in veterinary reagent disc sales in Europe due to higher sales of veterinary reagent discs to a distributor in the second quarter of fiscal 2012 due to the timing of inventory purchases.

Total revenues from other products and services in the veterinary market during the six months ended September 30, 2012 increased by 284%, or $2.0 million, primarily attributable to veterinary reference laboratory diagnostic and consulting services provided by AVRL in North America beginning in the third quarter of fiscal 2012.

Gross Profit for Veterinary Market Segment

Gross profit for the veterinary market segment increased by 10%, or $3.4 million, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012. Gross profit percentages for the veterinary market segment during the six months ended September 30, 2012 and 2011 were 55% and 57%, respectively. In absolute dollars, the increase in gross profit for the veterinary market segment was primarily attributable to (a) an increase in the sales volume of VetScan chemistry analyzers, VetScan hematology instruments, and veterinary reagent discs and (b) higher average selling prices of veterinary reagent discs and hematology reagent kits. These increases in gross profit were partially offset by (a) an increase in freight costs to ship products and (b) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012. As a percentage of total revenues, the decrease in gross profit margin was primarily due to (a) an increase in the sales volume of our OEM supplied products, which have a lower margin contribution and (b) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012.

Other

Gross profit in our other category decreased by $480,000, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, primarily attributable to costs on materials and overhead allocations on facilities, both related to our instrument repair and support center, which were not allocated to a particular segment, partially offset by an increase in revenue from (a) deferred revenue recognized ratably over the life of the maintenance contract and (b) an increase in units of instruments repairs.

Cost of Revenues

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

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
Cost of revenues	$21,135	$18,004	$3,131	17 %	$40,300	$34,784	$5,516	16 %
Percentage of total revenues	48 %	45 %			47 %	46 %		

Cost of revenues includes the cost of material, 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. Beginning in the third quarter of fiscal 2012, cost of revenues includes cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL.

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Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

The increase in cost of revenues, in absolute dollars and as a percentage of revenues, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, was primarily due to (a) an increase in the sales volume of medical and veterinary instruments, (b) an increase in freight costs to ship products, and (c) costs of services provided by AVRL beginning in the third quarter of fiscal 2012.

The increase in cost of revenues, in absolute dollars and as a percentage of revenues, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, was primarily due to (a) an increase in the sales volume of medical and veterinary instruments, (b) an increase in the sales volume of veterinary reagent discs, (c) an increase in freight costs to ship products, and (d) costs of services provided by AVRL beginning in the third quarter of fiscal 2012.

Gross Profit

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

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
Gross profit	$23,123	$22,021	$1,102	5 %	$45,972	$41,244	$4,728	11 %
Gross profit percentage	52 %	55 %			53 %	54 %		

Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

Gross profit during the three months ended September 30, 2012 increased by 5%, or $1.1 million, as compared to the same period in fiscal 2012, primarily attributable to the following: (a) sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company, (b) an increase in the sales volume of VetScan chemistry analyzers and VetScan hematology instruments, and (c) higher average selling prices of VetScan chemistry analyzers, veterinary reagent discs and hematology reagent kits. These increases in gross profit were partially offset by (a) a decrease in the sales volume of veterinary reagent discs, (b) an increase in freight costs to ship products, and (c) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012. As a percentage of total revenues, the decrease in gross profit margin was primarily due to (a) a decrease in the sales volume of veterinary reagent discs, (b) an increase in the sales volume of our OEM supplied products, which have a lower margin contribution, and (c) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012.

Gross profit during the six months ended September 30, 2012 increased 11%, or $4.7 million, as compared to the same period in fiscal 2012, primarily attributable to the following: (a) sales of Piccolo chemistry analyzers to an international medical supplies sourcing and support company to support a pharmaceutical clinical trial conducted by a biotechnology company, (b) an increase in sales volume of VetScan chemistry analyzers, VetScan hematology instruments, and veterinary reagent discs, and (c) higher average selling prices of veterinary reagent discs and hematology reagent kits. These increases in gross profit were partially offset by (a) an increase in freight costs to ship products and (b) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012. As a percentage of total revenues, the decrease in gross profit was primarily due to (a) an increase in the sales volume of our OEM supplied products, which have a lower margin

contribution and (b) the cost of services for veterinary reference laboratory diagnostic and consulting services provided by AVRL beginning in the third quarter of fiscal 2012.

Research and Development

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

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
Research and development expenses	$3,581	$3,008	$573	19 %	$6,546	$6,462	$84	1 %
Percentage of total revenues	8 %	8 %			8 %	8 %		

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 and expenses related to regulatory and quality assurance. Research and development expenses are primarily based on the project activities planned and the level of spending depends on budgeted expenditures.

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Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

The increase in research and development expenses, in absolute dollars, during the three and six months ended September 30, 2012 as compared to the same period in fiscal 2012, was primarily attributable to new product development and enhancement of existing products in both the medical and veterinary markets. Share-based compensation expense included in research and development expenses during the three months ended September 30, 2012 and 2011 was $254,000 and $203,000, respectively, and during the six months ended September 30, 2012 and 2011 was $554,000 and $415,000, respectively.

We anticipate research and development expenses for fiscal 2013 to remain consistent as a percentage of total revenues, as we develop 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 or cost effective.

Sales and Marketing

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

	Three Months Ended September 30,		Change		Six Months Ended September 30,		Change	
	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
Sales and marketing expenses	$11,505	$9,335	$2,170	23 %	$23,274	$18,487	$4,787	26 %
Percentage of total revenues	26 %	23 %			27 %	24 %		

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, services related to customer and technical support and costs associated with advertising and marketing of AVRL.

Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

The increase in sales and marketing expenses, in absolute dollars, during the three and six months ended September 30, 2012 as compared to the same period in fiscal 2012, was primarily due to increased costs related to headcount and promotional and marketing spending to support AVRL and the ongoing growth of our veterinary business in North America. AVRL began providing services starting in the third quarter of fiscal 2012. Share-based compensation expense included in sales and marketing expenses during the three months ended September 30, 2012 and 2011 was $584,000 and $429,000, respectively, and during the six months ended September 30, 2012 and 2011 was $1.3 million and $927,000, respectively.

General and Administrative

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

	Three Months Ended		Six Months Ended	

	September 30,		Change		September 30,		Change	
	2012	2011	Increase/ (Decrease)	Percent Change	2012	2011	Increase/ (Decrease)	Percent Change
General and administrative expenses	$4,621	$4,495	$126	3 %	$7,943	$7,914	$29	<1 %
Percentage of total revenues	10 %	11 %			9 %	10 %		

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 and legal, and other general and administrative expenses.

Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

General and administrative expenses, in absolute dollars, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, were impacted by (a) an increase of $980,000 in legal expenses primarily related to pursuing a patent infringement case and (b) higher personnel-related costs based on achievement of qualifiers in our bonus plan. The increase in general and administrative expenses was partially offset by a decrease of $1.1 million related to start-up costs incurred to develop AVRL during the three months ended September 30, 2011. Share-based compensation expense included in general and administrative expenses during the three months ended September 30, 2012 and 2011 was $649,000 and $614,000, respectively.

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General and administrative expenses, in absolute dollars, during the six months ended September 30, 2012, as compared to the same period in fiscal 2012, were impacted by (a) an increase of $1.0 million in legal expenses primarily related to pursuing a patent infringement case and (b) higher personnel-related costs based on achievement of qualifiers in our bonus plan and an increase in share-based compensation expense because forfeiture estimates were adjusted to reflect actual forfeitures when an award vested in the first quarter of fiscal 2013. The increase in general and administrative expenses was partially offset by a decrease of $1.6 million related to start-up costs incurred to develop AVRL during the six months ended September 30, 2011. Share-based compensation expense included in general and administrative expenses during the six months ended September 30, 2012 and 2011 was $1.2 million and $829,000, respectively.

Gain from Legal Settlement

On September 24, 2012 we resolved our patent infringement litigation with Cepheid. As part of the settlement, the parties agreed to terminate all pending and future claims connected with the litigation in exchange for a one-time payment by Cepheid of $17.3 million, which we recognized as an offset to operating expenses during the second quarter of fiscal 2013.

Interest and Other Income (Expense), Net

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

	Three Months Ended September 30,			Six Months Ended September 30,		
	2012	2011	Change Increase/ (Decrease)	2012	2011	Change Increase/ (Decrease)
Interest and other income (expense), net	$ 255	$ 56	$ 199	$ 25	$ 350	$ (325)

Interest and other income (expense), net consists primarily of interest earned on cash and cash equivalents and investments, foreign currency exchange gains and losses and our equity in net income (loss) of an unconsolidated affiliate.

Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

The increase in interest and other income (expense), net, during the three months ended September 30, 2012, as compared to the same period in fiscal 2012, was primarily attributable to net favorable foreign currency exchange rates during the second quarter of fiscal 2013, partially offset by grant income awarded to set up AVRL during the second quarter of fiscal 2012.

The decrease in interest and other income (expense), net, during the six months ended September 30, 2011, as compared to the same period in fiscal 2012, was primarily attributable to net unfavorable foreign currency exchange rates during the first quarter of fiscal 2013 and grant income awarded to set up AVRL during the second quarter of fiscal 2012.

Income Tax Provision

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

	Three Months Ended	Six Months Ended

	September 30,		September 30,	
	2012	2011	2012	2011
Income tax provision	$8,012	$1,918	$9,711	$3,196
Effective tax rate	38 %	37 %	38 %	37 %

Three and Six Months Ended September 30, 2012 Compared to Three and Six Months Ended September 30, 2011

During the three months ended September 30, 2012 and 2011, our income tax provision was $8.0 million, based on an effective tax rate of 38%, and $1.9 million, based on an effective tax rate of 37%, respectively. During the six months ended September 30, 2012 and 2011, our income tax provision was $9.7 million, based on an effective tax rate of 38%, and $3.2 million, based on an effective tax rate of 37%, respectively. The effective tax rates during the three and six months ended September 30, 2012, as compared to the three and six months ended September 30, 2011, increased primarily due to a discrete tax expense of approximately $6.7 million due to a gain from our legal settlement with Cepheid during the second quarter of fiscal 2013. During the three and six months ended September 30, 2012, our effective tax rates were impacted by the expiration of the federal research and development tax credit, partially offset by increased federal domestic production tax benefits, as compared to the three and six months ended September 30, 2011.

We did not have any unrecognized tax benefits as of September 30, 2012 and March 31, 2012. During the three and six months ended September 30, 2012 and 2011, we did not recognize any interest or penalties related to unrecognized tax benefits.

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LIQUIDITY AND CAPITAL RESOURCES

Cash, Cash Equivalents and Investments

The following table summarizes our cash, cash equivalents and short-term and long-term investments at September 30, 2012 and March 31, 2012 (in thousands, except percentages):

	September 30, 2012	March 31, 2012
Cash and cash equivalents	$54,109	$45,843
Short-term investments	24,764	21,689
Long-term investments	21,718	23,442
Total cash, cash equivalents and investments	$100,591	$90,974
Percentage of total assets	48 %	50 %

At September 30, 2012, we had net working capital of $130.5 million compared to $110.0 million at March 31, 2012.

Cash Flow Changes

Cash provided by (used in) operating, investing and financing activities for the six months ended September 30, 2012 and 2011 were as follows (in thousands):

	Six Months Ended September 30,	
	2012	2011
Net cash provided by operating activities	$13,375	$12,678
Net cash (used in) provided by investing activities	(4,706)	10,190
Net cash used in financing activities	(89)	(28,284)
Effect of exchange rate changes on cash and cash equivalents	(314)	(61)
Net increase (decrease) in cash and cash equivalents	$8,266	$(5,477)

Cash and cash equivalents at September 30, 2012 were $54.1 million compared to $45.8 million at March 31, 2012. The increase in cash and cash equivalents during the six months ended September 30, 2012 was primarily due to net cash provided by operating activities of $13.4 million and proceeds from maturities and redemptions of investments of $12.2 million. The increase was partially offset by purchases of investments of $14.0 million, purchases of property and equipment of $2.9 million and payments made for tax withholdings related to net share settlements of restricted stock units of $1.5 million during the six months ended September 30, 2012.

Cash Flows from Operating Activities

During the six months ended September 30, 2012, we generated $13.4 million in cash from operating activities, compared to $12.7 million during the six months ended September 30, 2011. The cash provided by operating activities during the six months ended September 30, 2012 was primarily the result of net income of $15.8 million, adjusted for the effects of non-cash adjustments including depreciation and amortization of $2.9 million and share-based compensation expense of $3.5 million, partially offset by a decrease of $1.1 million related to excess tax benefits from share-based awards.

Other changes in operating activities during the six months ended September 30, 2012 were as follows:

(i) Receivables, net increased by $17.7 million, from $30.7 million at March 31, 2012 to $48.4 million as of September 30, 2012, primarily due to a one-time payment of $17.3 million from Cepheid as part of our settlement related to a patent infringement litigation.

(ii) Inventories increased by $2.5 million, from $19.6 million at March 31, 2012 to $22.1 million as of September 30, 2012, primarily due to an increase in raw materials and finished goods to support future demand.

(iii) Prepaid expenses and other current assets decreased by $3.3 million, from $5.4 million at March 31, 2012 to $2.1 million as of September 30, 2012, primarily attributable to (a) a decrease in our prepayment to Diatron MI PLC due to the timing of purchases of hematology instruments and reagents and (b) a decrease in prepaid taxes due to a gain from our legal settlement with Cepheid and timing of estimated income tax payments.

(iv) Accounts payable increased by $1.8 million, from $6.4 million at March 31, 2012 to $8.2 million as of September 30, 2012, primarily due to the timing and payment of services and inventory purchases.

(v) Accrued payroll and related expenses increased by $1.8 million, from $6.3 million at March 31, 2012 to $8.1 million as of September 30, 2012, primarily due to higher accrued bonus based on achievement of qualifiers in our bonus plan during the second quarter of fiscal 2013.

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(vi) Accrued taxes increased by $3.2 million, from $266,000 at March 31, 2012 to $3.5 million as of September 30, 2012, primarily due to a gain from our legal settlement with Cepheid and the timing of estimated income tax payments.

(vii) Other accrued liabilities increased by $1.1 million, from $2.0 million at March 31, 2012 to $3.1 million as of September 30, 2012, primarily due to the timing and payment of services.

(viii) Total deferred revenue increased by $585,000, resulting from an increase in the current portion of deferred revenue of $68,000, from $1.2 million at March 31, 2012 to $1.3 million as of September 30, 2012, and an increase in the non-current portion of deferred revenue of $517,000 from $2.4 million at March 31, 2012 to $2.9 million as of September 30, 2012. The increase in deferred revenue balances is due to (a) an increase in maintenance contracts offered to customers from time to time in the form of free services in connection with the sale of our products and (b) selling arrangements offered from time to time in the veterinary market that include multiple deliverables, such as instruments, consumables and service agreements associated with our veterinary reference laboratory. The net increase in deferred revenue was partially offset by deferred revenue recognized ratably over the life of the maintenance contract.

(ix) Total warranty reserves decreased by $366,000, resulting from a decrease in the current portion of warranty reserves of $202,000, from $1.2 million at March 31, 2012 to $1.0 million as of September 30, 2012, and a decrease in the non-current portion of warranty reserves of $164,000, from $601,000 at March 31, 2012 to $437,000 as of September 30, 2012. During the six months ended September 30, 2012, we recorded an adjustment to pre-existing warranties of $290,000, which reduced our warranty reserves and our cost of revenues, based on both historical and projected product performance rates of instruments. Our warranty reserves is primarily based on (a) the number of instruments in standard warranty, estimated product failure rates and estimated repair costs and (b) an estimate of defective reagent discs and replacement costs. Management continually evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. If an unusual performance rate related to warranty claims is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated.

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; acquisition of capital equipment for our manufacturing facility and costs to operate AVRL. Furthermore, during the six months ended September 30, 2012, we incurred legal costs related to a patent infringement lawsuit against Cepheid. In the future, we may continue to incur additional legal costs.

Cash Flows from Investing Activities

Net cash used in investing activities during the six months ended September 30, 2012 totaled $4.7 million, compared to net cash provided by investing activities of $10.2 million during the six months ended September 30, 2011. Changes in investing activities were as follows:

Investments. Cash used to purchase investments in certificates of deposits, corporate bonds and municipal bonds totaled $14.0 million during the six months ended September 30, 2012. Cash provided by proceeds from maturities and redemptions of investments in certificates of deposits, corporate bonds and municipal bonds totaled $12.2 million during the six months ended September 30, 2012.

Property and Equipment. Cash used to purchase property and equipment totaled $2.9 million during the six months ended September 30, 2012, primarily to support increased capacity requirements in our production line and AVRL

operations. We anticipate that we will continue to purchase property and equipment as necessary in the normal course of our business.

Cash Flows from Financing Activities

Net cash used in financing activities during the six months ended September 30, 2012 totaled $89,000, compared to net cash used in financing activities of $28.3 million during the six months ended September 30, 2011. The changes during the six months ended September 30, 2012 were primarily due to payments made for tax withholdings related to net share settlements of restricted stock units of $1.5 million, partially offset by proceeds from the exercise of stock options of $261,000 and excess tax benefits from share-based awards of $1.1 million. Additionally, during the six months ended September 30, 2012, we did not purchase any shares pursuant to our share repurchase program described below in the fiscal 2012 period.

Share Repurchase Program

In August 2011, our Board of Directors authorized the repurchase of up to an aggregate of $40.0 million of our common stock. In January 2012, the Board of Directors approved a $15.0 million increase to the Company's existing share repurchase program, to a total of $55.0 million. Since the share repurchase program began, through September 30, 2012, we have repurchased 1.2 million shares of our common stock at a total cost of $27.3 million. As of September 30, 2012, $27.7 million of our common stock may yet be purchased under such authorization. The repurchases are made from time to time on the open market at prevailing market prices or in negotiated transactions off the market. Repurchased shares are retired. During the three and six months ended September 30, 2012, we did not repurchase any of our common stock.

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Financial Condition

We believe that cash and cash equivalents, investments and expected cash flows from operations will be sufficient to fund our operations, capital requirements and share repurchase program for at least the next twelve months. Our future capital requirements will largely depend upon the increased market acceptance of our point-of-care blood analyzer products and of our Abaxis Veterinary Reference Laboratories. 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.

Contractual Obligations

Purchase Commitments. In October 2008, we entered into an original equipment manufacturing ("OEM") agreement with SMB of Denmark to purchase coagulation and specialty analyzers and related cartridges. Effective January 2011, we amended and restated our OEM agreement, including the terms of our minimum purchase commitments. Under the amended agreement, we committed to purchase a minimum number of coagulation and specialty analyzers and related cartridges on an annual basis during each calendar year 2011 through 2015. Our purchase obligations in the future may be adjusted if our minimum purchase commitments are not met during a calendar year period. At September 30, 2012, our total remaining outstanding commitment due is approximately $10.2 million.

In December 2011, we executed a term sheet to enter into a development and supply equipment agreement with Diatron MI PLC ("Diatron") of Hungary to purchase Diatron hematology instruments. Effective July 2012, we entered into a development and supply agreement with Diatron and under the agreement terms, we committed to purchase a minimum number of hematology instruments on an annual basis through fiscal year 2015. At September 30, 2012, our total remaining outstanding commitment due is approximately $8.8 million. Furthermore, at September 30, 2012, we prepaid $402,000 to Diatron for future purchases of hematology instruments and reagents, which was recorded in prepaid expenses and other currents assets on the consolidated balance sheet. 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. Because the exchange rate will fluctuate in the future, the dollar amount of the purchase commitment in dollars will change accordingly.

Notes Payable. We have a ten year loan agreement with the Community Redevelopment Agency of the City of Union City ("the Agency") whereby the Agency provides us with an unsecured loan of up to $1.0 million, primarily to purchase capital equipment. The loan was effective January 2011, bears interest at 5.0% and is payable quarterly. As of September 30, 2012, our short-term and long-term notes payable balances were $100,000 and $733,000, respectively, and we recorded the short-term balance in other accrued liabilities on the consolidated balance sheets. The entire outstanding balance of the note shall be payable in full on the earlier of: (i) December 2020, or (ii) the date Abaxis ceases operations in Union City, California. The Agency also has the right to accelerate the maturity date and declare all balances immediately due and payable upon the event of default as defined in the loan agreement. We evaluate covenants in our loan agreement on a quarterly basis, and we were in compliance with such covenants as of September 30, 2012.

In accordance with the terms of the loan agreement, the Agency will provide Abaxis with an annual credit that can be applied against the accrued interest and outstanding principal balance on a quarterly basis. The Agency determines the annual credit based on certain taxes paid by Abaxis to the City of Union City, California for a specified period, as defined in the loan agreement. We anticipate that our annual credits from the Agency will be used to fully repay our notes payable due to the Agency. We may carry forward unused quarterly credits to apply against our outstanding balance in a future period. Credits applied to repay our notes payable and accrued interest are recorded in "Interest and other income (expense), net" on the consolidated statements of income.

Patent Licensing Agreement. Effective January 2009, we entered into a license agreement with Alere. 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 Alere 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 Alere 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 Alere 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 Alere 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 became payable starting in fiscal 2011 for so long as we desire to maintain exclusivity under the agreement.

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Contingencies

On June 28, 2010, we filed a patent infringement lawsuit against Cepheid. On September 24, 2012, the parties agreed to terminate all pending and future claims connected with the litigation in exchange for a one-time payment by Cepheid of $17.3 million, which we recorded in receivables and recognized as an offset to operating expenses during the second quarter of fiscal 2013.

On October 1, 2012, St. Louis Police Retirement System, a purported shareholder of Abaxis, filed a lawsuit against certain officers and each of our directors in the United States District Court for the Northern District of California alleging, among other things, that the directors violated Section 14(a) of the Securities Exchange Act of 1934 and breached their fiduciary duties by allegedly failing to disclose material information in our 2010 proxy statement, breached their fiduciary duties by allegedly violating the terms of our 2005 Equity Incentive Plan, and breached their fiduciary duties by failing to disclose alleged material information in our 2012 proxy statement regarding (1) the events leading up to our proposal to amend the 2005 Equity Incentive Plan to eliminate the limit on the number of shares that may be issued pursuant to restricted stock units, and (2) the effects of the proposed amendment on certain settled and outstanding restricted stock units. The plaintiff seeks, among other things, damages, disgorgement and attorney's fees. In addition, the plaintiff sought, and on October 23, 2012 the court issued, an order preliminarily enjoining our shareholder vote on Proposal 2 in our 2012 proxy statement, regarding an amendment to the 2005 Equity Incentive Plan, until such time as additional disclosures could be made. The Company filed with the SEC and mailed to shareholders supplemental proxy materials approved by the court, the injunction was lifted and our shareholders approved the proposal to amend our 2005 Equity Incentive Plan. We believe the claims raised by the plaintiff are without merit and intend to contest them vigorously.

We are involved from time to time in various litigation matters in the normal course of business. There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

Off-Balance Sheet Arrangements

As of September 30, 2012, we did not have any off-balance sheet arrangements, as defined in Item 303 of Regulation S-K promulgated under the Securities Act of 1933. In addition, we identified no variable interests in any variable interest entities.

RECENT ACCOUNTING PRONOUNCEMENTS

A discussion of recent accounting pronouncements is included in Note 2 of the Notes to 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 September 30, 2012, our short-term and long-term investments totaled $24.8 million and $21.7 million, respectively, consisting of investments in certificates of deposits, corporate bonds and municipal bonds.

As of September 30, 2012, we had $38.4 million in investments classified as held-to-maturity and carried at amortized cost. We have the ability to hold the investments classified as held-to-maturity in our investment portfolio at September 30, 2012 until maturity and therefore, we believe we have no material exposure to interest rate risk. As of September 30, 2012, our investments classified as available-for-sale totaled $8.1 million, which we recorded at fair market value with unrealized gains or losses resulting from changes in fair value reported as a separate component of accumulated other comprehensive income (loss), net of any tax effects, in stockholders' equity. A sensitivity analysis assuming a hypothetical 10% movement in interest rates applied to our total investment balances at September 30, 2012 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 fiscal 2012 or during the six months ended September 30, 2012.

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."

Investment in a Privately Held Company

In February 2011, we purchased a 15% equity ownership interest in SMB, a privately-held developer and manufacturer of point-of-care diagnostic products for veterinary use, for $2.8 million in cash. SMB, based in Farum, Denmark, has been the original equipment manufacturer of our VetScan VSpro point-of-care coagulation and specialty analyzer since 2008. The investment is recorded in "Investment in Unconsolidated Affiliate" in our consolidated balance sheets and we use the equity method to account for our investment in this entity that we do not control, but where we have the ability to exercise significant influence. As of September 30, 2012, the total carrying amount of our investment in SMB was $2.6 million. The investment is inherently risky and we could lose our entire investment in this company. To date, since our investment in SMB, we have not recorded an impairment charge on this investment.

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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 products purchased from Diatron MI PLC, which are primarily denominated in Euros.

Abaxis Europe GmbH, our wholly-owned subsidiary since July 2008, markets, promotes and distributes 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 consolidated statements of income. For our sales denominated in foreign currencies, we are exposed to foreign currency exchange rate fluctuations on revenue and 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 September 30, 2012 compared to the disclosures in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated that the effectiveness of our 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 September 30, 2012. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. In our conclusion that our disclosure controls and procedures and our internal control over financial reporting were effective as of September 30, 2012, management considered, among other things, the following:

In June 2012, Mr. Achim Henkel, an executive officer, took a loan from our German subsidiary of approximately $200,000, bearing annual interest at 2.3% and payable by December 2012. The loan was documented and recorded in our financial records and Mr. Henkel consulted our German accountants regarding the propriety of the loan, but failed to seek the approval of the Company's Audit Committee in accordance with our policy of requiring advance Audit Committee review and approval of related-party transactions and did not inform our Chief Executive Officer or Chief Financial Officer. The loan constituted an apparent violation of U.S. law prohibiting loans by publicly-traded issuers to its executive officers. Our Company's Chief Executive Officer and Chief Financial Officer became aware of the loan in August 2012, promptly investigated the matter, caused Mr. Henkel to repay the loan and brought the matter to the attention of the Audit Committee. The Audit Committee reviewed the transaction and reviewed and approved actions taken by management in response, including efforts to re-educate all of its executive officers regarding the

requirements of our related-party transactions policy and our internal controls on payments to our officers and directors. In addition, we have adopted an expanded written policy regarding the approval of related-party transactions.

In connection with the preparation of the proxy statement for our 2012 annual meeting of shareholders, we determined that we had issued more shares in settlement of restricted stock units than were permitted under a 500,000-share limit on the issuance of shares upon settlement of restricted stock units and other full-value awards set forth in our 2005 Equity Incentive Plan. As of September 30, 2012, we had issued 370,179 more shares of Common Stock upon settlement of restricted stock units than were then permitted under the 2005 Equity Incentive Plan. We inadvertently exceeded the full value award limit because we believed that such limit applied to each 500,000-share increase to the overall share reserve increase approved by shareholders in 2005, 2008 and 2010. We have not issued restricted stock units and other equity awards or shares issuable upon exercise or settlement thereof in excess of the overall share reserve for the 2005 Equity Incentive Plan approved by shareholders. On November 8, 2012, our shareholders approved an amendment to our 2005 Equity Incentive Plan that, among other things, removed the full-value award limit.

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Changes in Internal Control over Financial Reporting

Other than as described in "Evaluation of Disclosure Controls and Procedures" above, there were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2012 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On June 28, 2010, we filed a patent infringement lawsuit against Cepheid. On September 24, 2012, the parties agreed to terminate all pending and future claims connected with the litigation in exchange for a one-time payment by Cepheid of $17.3 million, which we recorded in receivables and recognized as an offset to operating expenses during the second quarter of fiscal 2013.

On October 1, 2012, St. Louis Police Retirement System, a purported shareholder of Abaxis, filed a lawsuit against certain officers and each of our directors in the United States District Court for the Northern District of California (Case No. C-12-5086 (YGR)), alleging, among other things, that the directors violated Section 14(a) of the Securities Exchange Act of 1934 and breached their fiduciary duties by allegedly failing to disclose material information in our 2010 proxy statement, breached their fiduciary duties by allegedly violating the terms of our 2005 Equity Incentive Plan, and breached their fiduciary duties by failing to disclose alleged material information in our 2012 proxy statement regarding (1) the events leading up to our proposal to amend the 2005 Equity Incentive Plan to eliminate the limit on the number of shares that may be issued pursuant to restricted stock units, and (2) the effects of the proposed amendment on certain settled and outstanding restricted stock units. The plaintiff seeks, among other things, damages, disgorgement and attorney's fees. In addition, the plaintiff sought, and on October 23, 2012 the court issued, an order preliminarily enjoining our shareholder vote on Proposal 2 in our 2012 proxy statement, regarding an amendment to the 2005 Equity Incentive Plan, until such time as additional disclosures could be made. The Company filed with the SEC and mailed to shareholders supplemental proxy materials approved by the court, the injunction was lifted and our shareholders approved the proposal to amend our 2005 Equity Incentive Plan. We believe the claims raised by the plaintiff are without merit and intend to contest them vigorously.

We are involved from time to time in various litigation matters in the normal course of business. There can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

RISK FACTORS THAT MAY AFFECT OUR PERFORMANCE

Our future performance is subject to a number of risks. If any of the following risks actually occur, our business could be harmed and the trading price of our common stock could decline.

When used in these risk factors, the words “anticipates,” “believes,” “continue,” “could,” “estimates,” “expects,” “future,” “int “may,” “might,” “plans,” “projects,” “will” and similar expressions identify forward-looking statements. Our actual results cou differ materially from those that we project in the forward-looking statements as a result of factors that we have set forth throughout this document as well as additional risks not presently known to us or that we currently believe are immaterial that may also significantly impair our business operations.

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In evaluating our business, you should carefully consider the following risks in addition to the other information in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012 as filed with the Securities and Exchange Commission on June 14, 2012. We note these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. It is not possible to predict or identify all such factors and, therefore, you should not consider the following risks to be a complete statement of all the potential risks or uncertainties that we face.

Our facilities and manufacturing operations are vulnerable to interruption as a result of natural disasters and system failures. Any such interruption 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. These manufacturing operations are vulnerable to damage or interruption from earthquakes, fire, floods, power loss, telecommunications failures, break-ins and similar events. 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 or other significant loss or problem. Accordingly, if our manufacturing operations in Union City, California were interrupted, we may be required to bring an alternative facility online, a process that could take several weeks to several months or more.

Additionally, we rely on several information systems to keep financial records, process customer orders, manage inventory, process shipments to customers and operate other critical functions. If we were to experience a system disruption in the information technology systems that enable us to interact with customers and suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. Although we carry property and business interruption insurance, our coverage may not be adequate to compensate us for all losses that may occur.

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 are derived primarily by selling to distributors that 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 or period 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. As a result, any such revenues 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 primarily due (i) to seasonal patterns in the decision making processes by our independent distributors and direct customers, (ii) to inventory or timing considerations by our distributors and (iii) on the purchasing requirements of the U.S. government 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 or service 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 or services on a timely basis, or at all;
- our manufacturing capacities and our ability to increase the scale of these capacities;
- the mix of sales among our instruments, consumable products and services;
- the amount we spend on research and development; and
- changes in our strategies.

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We depend on limited or sole suppliers, many of whom we do not have long-term contracts 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.

- Blood Chemistry Analyzer Components: Our blood analyzer products use several technologically-advanced components that we currently purchase from a limited number of suppliers, including certain components from single source suppliers, 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.

- Reagent Discs: Two injection-molding manufacturers, C. Brewer & Co. and Nypro, Inc., currently make the molded plastic discs that, 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 reagents and dry reagent chemistry beads that are either inserted in our reagent discs, lateral flow rapid tests or sold as stand-alone products: Amano Enzyme USA Co., Ltd., 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., Sekisui Diagnostics (formerly Genzyme Diagnostics), Sigma Aldrich Inc. and Toyobo Specialties.

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

- Hematology Instruments and Reagent Kits: Our VetScan hematology instruments are manufactured by Diatron in Hungary and are purchased by us as a completed instrument. In addition, currently, we have qualified two suppliers to produce the reagent kits for our hematology instruments: Clinical Diagnostic Solutions, Inc. and Diatron.

- Coagulation and Specialty Analyzers and Cartridges: Our VetScan VSpro coagulation and specialty 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 VetScan i-STAT 1 analyzers and cartridges are manufactured by Abbott 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. For the suppliers of original equipment manufactured products that we have long-term contracts with, there can be no assurance that these suppliers will always fulfill their obligations under these contracts, or that any suppliers will not experience disruptions in their ability to supply our requirements for products. In addition, under some contracts with suppliers we have minimum purchase obligations and our failure to satisfy those obligations may result in loss of some or all of our rights under these contracts.

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 adversely affect our business and financial condition.

We would fail to achieve anticipated revenues if the market does not accept our products or services.

We believe that our core compact blood chemistry analyzer product differs substantially from current blood chemistry analyzers on the market. We compete with 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.

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In the human medical market, we believe that our blood chemistry analyzers offer customers many advantages, including substantial improvements in practice efficiencies. However, the implementation of point-of-care diagnostics in physicians' offices involves changes to current standard practices, such as using large clinical laboratories, and adopting our technology requires a shift 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 could fail to achieve anticipated revenue.

Historically, in the veterinary market, we have marketed our VetScan products through both direct sales and distribution channels to veterinarians. We continue to develop new animal blood tests to expand our product offerings; however, we cannot be assured that these products will be accepted by the veterinary market. Any failure to achieve market acceptance with our current or future products or services would harm our business and financial condition.

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

As of September 30, 2012, 57 patent applications have been filed on our behalf with the United States Patent and Trademark Office ("USPTO"), of which 33 patents have been issued and 18 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 (when a patent application owner files a request for nonpublication) 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.

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 or sustain profitability.

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 the sales volumes of our products to increase or sustain profitability.

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

The human diagnostic market is fragmented, heavily regulated and constantly changing. Our limited sales, marketing and distribution capabilities are continually challenged to translate these changes into compelling value propositions for our prospective customers. Accordingly, we cannot assure you that:

- we will be able to maintain consistent growth through our key distributors in the human diagnostic market;
- the costs associated with sales, marketing and distributing our products will not be excessive; or
- government regulations or private insurer policies will not adversely affect our ability to be successful.

Beginning in January 2013, pursuant to our Abbott Agreement, Abbott will have the exclusive right to sell and distribute in the United States and China (including Hong Kong) our Piccolo Xpress chemistry analyzer and associated consumables in the professionally-attended human healthcare market in this territory, excluding sales and distribution to Catapult Health LLC and specified customer segments, including pharmacy and retail store clinics, shopping malls and contract research organizations (CROs) and cruise ship lines. As a result of the Abbott Agreement, we will cease to have control over the marketing and selling of our products into most of the U.S. and China medical market effective January 2013. The success of our medical business in these markets will be dependent on the efforts of Abbott and, should these efforts be unsuccessful, our business, financial condition and results of operations are likely to be adversely affected. In addition, as a result of this agreement, we expect to be substantially reducing the size of our United States medical sales force. The initial term of the Abbott Agreement ends on December 31, 2017, and after the initial term, the agreement renews automatically for successive one-year periods unless terminated by either party based upon a notice of non-renewal six months prior to the then-current expiration date. In the event the agreement is terminated, we would be required to invest and re-establish presence and sales capabilities in markets that were served by Abbott and/or identify one or more suitable replacement distribution partner(s), which would require significant time and effort. We could not be assured of replacing the capabilities of Abbott in those markets. New sales personnel and distribution partners take time to train and gain full productivity with customers, and if we are unable to accomplish this successfully, our business, financial condition and results of operations could be adversely affected. Should we fail to effectively develop our sales, marketing and distribution efforts and navigate regulatory challenges, our growth will be limited and our results of operations will be adversely affected.

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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 revenues until our customers identify another distributor or purchase products directly from us.

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. The loss of any of these distributors would have a material negative impact on our operating results and financial condition. Beginning in January 2013, pursuant to an agreement with Abbott Point of Care Inc., Abbott will have the exclusive right to sell and distribute in the United States and China (including Hong Kong) our Piccolo Xpress chemistry analyzer and associated consumables in the professionally-attended human healthcare market in this territory, excluding sales and distribution to Catapult Health LLC and specified customer segments, including pharmacy and retail store clinics, shopping malls and contract research organizations (CROs) and cruise ship lines. As a result of the Abbott Agreement, we will cease to have control over the marketing and selling of our products into most of the U.S. and China medical market effective January 2013.

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, Belgium, Canada, Czech Republic, Denmark, France, Germany, Hong Kong, India, Indonesia, Ireland, Israel, Italy, Japan, Korea, Macao, Mexico, 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 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, and our business and financial condition may be harmed as a result.

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The failure of our Abaxis Veterinary Reference Laboratories to compete effectively and achieve profitability could have a negative impact on our growth and profitability.

For Abaxis Veterinary Reference Laboratories ("AVRL") to compete effectively and achieve profitability, we must convince our existing and prospective customers in the veterinary market that our service offerings would be an attractive revenue-generating addition to their practices. In addition, we have to demonstrate that the services offered now and in the future at AVRL are and will be attractive alternatives to those offered by our competitors, by differentiating our services on the basis of such factors as the range of tests offered, turnaround time, cost effectiveness and reliability of results. This is difficult to do, especially to compete with existing competitors and new market entrants. Some of our competitors for sales of on-site testing products have a more established relationship with these customers than we do, which could inhibit AVRL's market penetration efforts. We cannot be assured that AVRL or its services will be accepted by the veterinary market. If we are unable to convince large numbers of veterinarians of the benefits of AVRL or otherwise fail to achieve market acceptance for AVRL's services, the growth of AVRL will be limited accordingly, which could harm our laboratory business and financial condition.

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 chemistry analyzers if we are to compete in that market. 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 managed care organizations 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 rely on relationships with partners and other third parties that license our technologies and pay us royalties on sales of their products. Failure to maintain these relationships, poor performance by these companies or disputes with these companies could negatively impact our business.

We rely on collaborative relationships with other companies for revenues resulting from royalties payable by these third parties in connection with technologies that they license from us. If third parties fail to perform under license agreement or generate royalties to the level of our expectations, our operating results may be harmed. In addition, reliance on collaborative relationships poses a number of risks, including the following risks:

- we may not be able to control the amount and timing of resources that our collaborators may devote to products from which we derive royalties;

- disputes may arise with respect to the ownership of rights to technology developed with our partners, such as our recently-settled litigation with Cepheid;

- disagreements with our partners could cause delays in, or termination of, the research, development or commercialization of products or result in litigation or arbitration;

- contracts with our partners may fail to provide significant protection or may fail to be effectively enforced if one of these partners fails to perform;

- should a partner fail to develop or commercialize products based on technologies we may license, we may not receive any future payments or any royalties for the technologies or products;

- collaborative arrangements are often terminated or allowed to expire, such as our former license with Cepheid, which would adversely impact our royalty revenues; and

- our corporate partners may be unable to pay us, particularly in light of current economic conditions.

Given these risks, there is a great deal of uncertainty regarding the success of our current and future collaborative efforts.

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.

The diagnostic market 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 primarily with the following organizations:

- commercial clinical laboratories;

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- 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 the following:

- 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 instruments and reagent discs cannot provide the same broad range of tests as hospitals and commercial laboratories, 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.

Our principal competitors in the point-of-care human diagnostic market are Alere (formerly Inverness Medical Technologies), Alfa Wassermann S.P.A., Abbott Laboratories' i-STAT division, Johnson & Johnson (including its subsidiary, Ortho-Clinical Diagnostics, Inc.) and F. Hoffmann-La Roche Ltd. Many of our competitors in the human diagnostic market have significantly larger product lines to offer and greater financial and other resources than we do. In particular, many of these competitors have large sales forces and well-established distribution channels and brand names. Our principal competitors in the veterinary diagnostic market are Idexx Laboratories, Inc. and Heska Corporation. Idexx has a larger veterinary product line and sales force than we do and a well-established distribution network and brand name. Consequently, we must develop our distribution channels and significantly expand our direct sales force in order to compete more effectively in these markets.

Our veterinary reference laboratory, AVRL, competes in the commercial laboratory arena nationwide with a full menu of laboratory diagnostics. We differentiate our services on the following factors: range of tests offered, turnaround time, cost effectiveness and reliability of results. AVRL's principal competitors are Idexx and Antech Diagnostics, a division of VCA Antech, Inc.

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 managed care organizations, 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 likelihood that physicians and hospitals will adopt point-of-care diagnostics as a viable means of care delivery. 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 and our business and financial condition would be harmed.

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 ("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.

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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 take 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 September 30, 2012, we have received the FDA premarket clearance for our Piccolo chemistry analyzer and 26 reagent tests that we have on 15 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.

Effects of the Clinical Laboratory Improvement Amendments on our Products

Our Piccolo products are also affected by the Clinical Laboratory Improvement Amendments of 1988 ("CLIA"). The CLIA Regulations 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 three categories: "waived," "moderately complex" and "highly complex." Four of the tests performed using the Piccolo system are in the "moderately complex" category. This category requires that any location in which testing is performed be certified as a laboratory. Hence, we can only sell 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 would be limited accordingly, which could harm our business and financial condition.

Animal and Plant Health Inspection Service Licensure of Veterinary Biologics

Our canine heartworm antigen ("CHW") diagnostic product is regulated as a veterinary biologic under the Virus, Serum, and Toxin Act of 1913. In October 2009, we announced that we received licensure of our CHW test utilizing a rotor-based assay system consisting of eleven other important canine health determinations from the Animal and Plant Health Inspection Service ("APHIS"). 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.

In February 2012, we received a second license from APHIS for our lateral flow test for VetScan Canine Lyme Rapid Test, a highly sensitive and specific test for the detection of Borrelia burgdorferi in canine whole blood, serum or plasma. We are currently developing additional tests that will be subject to APHIS licensure as veterinary biologics. If we do not receive licensure for these additional tests, we will not be able to market those products in the United States and our growth would be limited accordingly.

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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:

- United States Food and Drug Administration ("FDA"): In March 2012, December 2010, August 2008, September 2005 and March 2003, the FDA conducted a facility inspection and verified our compliance with the 21 CFR 820 Regulation.

- United States Department of Agriculture: In October 2009, we received a United States Veterinary Biologics Establishment License from the United States Department of Agriculture.

- State of California Food and Drug Branch ("FDB"): In April 2001, the FDB granted our manufacturing facility "in compliance" status, based on the regulations for Good Manufacturing Practices for medical devices. In May 2001, the FDB granted licensing for our manufacturing facility in Union City, California. In December 2010, the FDB conducted a routine facility inspection and verified our compliance with Good Manufacturing Practices for medical devices.

- International Organization for Standardization ("ISO"): 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 April 2005, we received the Canadian Medical Device Conformity Assessment System stamp on our ISO 13485 certificate to signify compliance with Health Canada regulations. In October 2009, we received our recertification to the ISO 13485:2003 Quality System Standard for medical devices. In May 2010, May 2011 and July 2012, we were recommended for continued certification to ISO 13485:2003 by our current ISO registrar.

We are not required to comply with all of the FDA government regulations applicable to the human medical market when manufacturing our VetScan products; however, we intend for all of our manufacturing operations to be compliant with the Quality System Regulation to help ensure product quality and integrity regardless of end use or patient. As we continue to sell in foreign markets, we may have to obtain additional governmental clearances in those markets. 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.

We may inadvertently design or produce defective products, which may subject us to significant warranty liabilities or product liability claims. We may have insufficient product liability insurance to pay material uninsured claims.

Our business exposes us to potential warranty and product liability risks that are inherent in the design, testing, manufacturing and marketing of human and veterinary medical products. Although we have established procedures for quality control on both the raw materials that we receive from suppliers as well as the design and manufacturing of our products, these procedures may prove inadequate to detect a design or manufacturing defect. In addition, our Piccolo and VetScan chemistry analyzers may be unable to detect all errors that could result in the misdiagnosis of human or veterinary patients.

We may be subject to substantial claims for defective products 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. 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 may experience manufacturing problems related to our instruments, which could materially and adversely affect our revenues and business.

We manufacture our blood chemistry analyzers at our manufacturing facility in Union City, California. Should we experience problems related to the manufacture of our blood chemistry analyzer, we could fail to achieve anticipated revenues or we may incur an additional increase in our cost of revenues. These problems may include manufacturing defects and product failures, defects in raw materials acquired from our suppliers, delays in receipt of raw materials from our suppliers, increases in raw materials costs and labor disturbances. There can be no assurance that our efforts to resolve manufacturing difficulties will be successful or that similar problems will not arise in the future. If we are unable to prevent such 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 or other instruments that we market and sell; accordingly, our revenues 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.

For our international sales denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our products less competitive in international markets. For our sales denominated in foreign currencies, we are subject to fluctuations in exchange rates between the U.S. dollar and the particular foreign 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 complex requirements from 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 control 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, 2012 and 2011. Although we received an unqualified opinion on our consolidated financial statements for the fiscal years ended March 31, 2012 and 2011, and on the effectiveness of our internal control over financial reporting as of March 31, 2012 and 2011, 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.

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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 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.

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 September 30, 2012, the closing sale prices of our common stock on the NASDAQ Global Market ranged from $35.00 to $39.81 per share and the closing sale price on September 28, 2012, the last day of trading for our quarter ended September 30, 2012, was $35.92 per share. During the last eight fiscal quarters ended September 30, 2012, our stock price closed at a high of $39.81 per share on July 18, 2012 and a low of $19.99 per share on August 8, 2011. 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 and, consequently, negatively affect our stock price.

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

We did not repurchase any equity securities during the period covered by this report.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4 Mine Safety Disclosures

Not applicable.

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*	Confidential Settlement Agreement by and between Abaxis, Inc. and Cepheid, dated September 24, 2012
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
101.INS†	XBRL Instance Document
101.SCH†	XBRL Taxonomy Extension Schema Document
101.CAL†	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF†	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB†	XBRL Taxonomy Extension Label Linkbase Document
101.PRE†	XBRL Taxonomy Extension Presentation Linkbase Document

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These exhibits are not deemed filed with the Securities and Exchange Commission and are 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.

† Pursuant to applicable securities laws and regulations, the Registrant is deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and is not subject to liability under any anti-fraud provisions of the federal securities laws as long as the Registrant has made a good faith attempt to comply with the submission requirements and promptly amends the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

* Confidential treatment has been requested from the Securities and Exchange Commission for portions of this exhibit.

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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: November 9, 2012 BY: /s/ Clinton H. Severson
Clinton H. Severson
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: November 9, 2012 BY: /s/ Alberto R. Santa Ines
Alberto R. Santa Ines
Chief Financial Officer and Vice President of Finance
(Principal Financial and Accounting Officer)