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

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1997, or
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____
Commission file number 000-21615 .

BOSTON BIOMEDICA, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS	04-2652826
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

375 WEST STREET, WEST BRIDGEWATER, MASSACHUSETTS	02379-1040
(Address of Principal Executive Offices)	(zip code)

Registrant's telephone number, including area code (508) 580-1900

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OFTHE ACT:
None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock, par value $.01 per share

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 [ ]

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 17, 1998 was $27,754,339. The aggregate market value was computed by reference to the closing price as of that date on NASDAQ.

The number of shares outstanding of the Registrant's only class of

common stock as of March 17, 1998 was 4,643,172.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 1997 annual meeting, are incorporated by reference into Part III of this Report, and portions of the Registrant's Registration Statement on Form S-1 (Registration No. 333-10759) are incorporated by reference into Part IV of this Report.

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PART I

ITEM 1. BUSINESS

The Company is a worldwide provider of proprietary quality control products for use with in vitro diagnostic test kits ("test kits") for the detection, analysis and monitoring of infectious diseases, including AIDS, Hepatitis and Lyme Disease. These products are used to develop test kits, to permit the monitoring of laboratory equipment and personnel, and to help ensure the accuracy of test results. The Company's products are derived from human plasma and serum using proprietary manufacturing processes. The Company believes its Quality Control Panel products are viewed as the current industry standard for the independent assessment of the performance of HIV and Hepatitis test kits. The Company also manufactures diagnostic test kit components, laboratory instruments, and provides specialty laboratory services, including clinical trials. It also provides contract instrument development and related repairs at its service center in Garden Grove, CA. The Company's customers include test kit manufacturers, regulatory agencies and end-users of test kits such as blood banks, hospital laboratories and clinical reference laboratories. Currently the Company's products are used in connection with the detection of more than 15 infectious diseases, and its specialty laboratory services are used in connection with the detection of over 100 such diseases.

The Company's strategy is to leverage its scientific capabilities in microbiology, immunology, virology, and molecular biology to (i) capitalize on the emerging end-user market, (ii) develop new products and services, (iii) enhance technical leadership, (iv) capitalize on complementary business operations, and (v) pursue strategic acquisitions and alliances.

Industry Overview

Infectious Disease Test Kits and Testing Methods. Test kits contain in one compact package all of the materials necessary to run a test for an infectious disease. These include the disposable diagnostic components, instructions, and reaction mixing vessels (generally 96-well plates or test tubes) which are coated with the relevant infectious disease antigens, antibodies or other materials. To perform the test, either a technician or a specially designed instrument typically mixes the solutions from the test kit with human blood specimens in a specific sequence according to the test kit instructions. The mixture must then "incubate" for up to 18 hours, during which time a series of biochemical reactions trigger signals (including color, light and radioactive count) which indicate the presence or absence and amount of specific markers of the particular disease in the specimen.

Test kits generally employ one of three methods for infectious disease testing: microbiology, immunology or molecular biology. Traditional microbiology tests use a growth medium that enables an organism, if present, to replicate and be detected visually. Immunology tests detect the antigen or antibody, which is an indicator (marker) of the pathogen (e.g., virus, bacterium, fungus or parasite). Molecular diagnostic methods, such as the polymerase chain reaction ("PCR"), test for the presence of nucleic acids (DNA or RNA) which are specific to a particular pathogen.

Most infectious disease tests currently use microbiological or immunological methods. However, molecular diagnostic methods are increasingly being used in research and clinical laboratories worldwide. The Company believes that the advent of molecular diagnostic methods will complement rather than diminish the need to test by microbiological and immunological procedures, because different test methods reveal different information about a disease

state. The Company anticipates that as new test methods become more widespread, they will account for a larger portion of the Company's business.

Quality Control for In Vitro Diagnostic Test Kits. Customers employ quality control products in order to develop and use test kits (both infectious and non-infectious). Quality control products help ensure that test kits detect the correct analyte (specificity), detect it the same way every time

(reproducibility or precision), and detect it at the appropriate levels (sensitivity). The major element of this quality control process is the continuous evaluation of test kits by the testing of carefully characterized samples that resemble the donor or patient samples routinely used with the test. Quality control is used in both the infectious and non-infectious disease markets, although currently it is not as prevalent among end-users of infectious disease test kits.

The market for quality control products consists of three main customer segments: (i) manufacturers of test kits, (ii) regulatory agencies that oversee the manufacture and use of test kits and (iii) end-users of test kits, such as hospitals, clinical reference laboratories and blood banks.

Company Products and Services

Overview

The Company offers two broad product classes used in in vitro diagnostics ("IVD"): "Diagnostic Products" consisting of Quality Control Panels, Accurun(Run Controls and Diagnostic Components, all used in connection with infectious disease testing, and new for 1997, "Laboratory Instruments". Diagnostic Products are used throughout the entire test kit life cycle, from initial research and development, through the regulatory approval process and test kit production, to training, troubleshooting and routine use by end-users. The Company's Quality Control Panels, which combine human blood specimens with comprehensive quantitative data useful for comparative analysis, help ensure that test kits detect the correct analyte (specificity), detect it the same way every time (reproducibility), and detect it at the appropriate levels (sensitivity). The Company's Accurun(Run Controls enable end-users of test kits to confirm the validity of results by monitoring test performance, thereby minimizing false negative test results and improving error detection. In addition, the Company provides Diagnostic Components, which are custom processed human plasma and serum products, to test kit manufacturers.

Through its wholly owned subsidiary, BBI Source Scientific, Inc., the Company designs, manufactures and markets Laboratory Instruments used in hospitals, clinics, and research, environmental and food testing laboratories. Utilizing a common hardware technology platform, these instruments are used in connection with the performance of an IVD test, including reading the test result.

The Company's specialty clinical laboratory services include both routine and sophisticated infectious disease testing in microbiology, immunology and molecular biology. The Company seeks to focus its specialty laboratory services in advanced areas of infectious disease testing, and provides contract research and clinical trials for the United States government and for domestic and foreign test kit manufacturers.

Diagnostic Products

The Company manufactures its Diagnostic Products from human plasma and serum which are obtained from nonprofit and commercial blood centers, primarily in the United States. The Company has acquired and developed an inventory of approximately 50,000 individual blood units and specimens (with volumes ranging from 1 ml to 800 ml) which provides most of the raw material for its products. Within the Diagnostic Products class are two groups: Quality Control Products (Panels and Accurun(Run Controls) and Diagnostic Components.

Quality Control Panels

Quality Control Panels consist of blood products characterized by the presence or absence of specific disease markers and a Data Sheet containing comprehensive quantitative data useful for comparative analysis. These Quality

Control Panels are designed for measuring overall test kit

performance and laboratory proficiency, as well as for training laboratory professionals. The Company's Data Sheets, containing comprehensive quantitative data useful for comparative analysis, are an integral part of its Quality Control Panels. These Data Sheets are created as the result of extensive testing of proposed panel components in both the Company's laboratories and at major testing laboratories on behalf of the Company in the United States and Europe, including national public health laboratories, research and clinical laboratories and regulatory agencies. These laboratories are selected based on their expertise in performing the appropriate tests on a large scale in an actual clinical setting; this testing process provides the Company's customers with the benefit that the Quality Control Panels they purchase from the Company have undergone rigorous testing in actual clinical settings. In addition, the Company provides information on its Data Sheets on the reactivity of panel components in all FDA licensed test kits and all leading European test kits for the target pathogen, as well as for all other appropriate markers of this pathogen. For example, the Company's HIV panel Data Sheets include anti-HIV by IFA, ELISA and western blot; HIV antigen by ELISA; and HIV RNA by several molecular diagnostic procedures. The Company's Data Sheets require significant time and scientific expertise to prepare. The following table describes the types of Quality Control Panel products currently offered by the Company.

<TABLE>
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QUALITY CONTROL PANEL PRODUCTS

PRODUCT LINE	DESCRIPTION	USE	CUSTOMERS
<S>	<C>	<C>	<C>
Seroconversion Panels	Plasma samples collected from a single individual overra specific time period showing conversion from negative to positive for markers of an infectious disease.-	Compare the clinical sensitivity of competing manufacturers' test kits, enabling the user to assess the sensitivity of a test in detecting a developing antigen/antibody.	Test kit manufacturers and regulators.
Performance Panels	A set of 10 to 50 serum and plasma samples collected from many different individuals and characterized for the presence or absence of a particular disease marker.	Determine test kit performance against all expected levels of reactivities in the evaluation of new, modified and improved test methods.	Test kit manufacturers and regulators.
Sensitivity Panels	Precise dilutions of human plasma or serum human plasma or serum containing a known amount of an infectious disease marker as calibrated against international standards.	Evaluate the low-end analytical sensitivity of a test kit.	Test kit manufacturers
Qualification Panels	Dilutions of human plasma or serum manifesting a full range of reactivities in test kits for a specific marker.	Demonstrate the consistent lot-to-lot performance of test kits, troubleshoot problems, evaluate proficiency, and train laboratory technicians.	Clinical reference laboratories, blood banks, and hospital laboratories
OEM Panels	Custom-designed Qualification Panels for regulators and test kit manufacturers for distribution to customers or for internal use.	Train laboratory personnel on new test kits or equipment.	Custom designed with test kit manufacturers and regulators as an end-user product or for internal use.

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The Company first introduced Quality Control Panels in 1987. The Company currently offers a broad range of Quality Control Panels that address a variety of needs of manufacturers and regulators of test kits as well as blood banks, hospitals, clinical laboratories and other end-users. Prices for the Company's quality control seroconversion, performance and sensitivity panels range from $450 to $2,000 each, and its qualification and OEM panels range from $100 to $200 per panel.

Seroconversion and Performance Panels are comprised of unique and rare plasma specimens obtained from individuals during the short period of time when the markers for a particular disease are converting from negative to positive. As a result, the quantity of any such panel is limited, so that the Company must replace these panels as they sell out with another panel comprised of different specimens equally unique and rare. The Company believes that its inventory and relationships with blood centers affords it a competitive advantage in acquiring such plasma for replacement panels and developing new products to meet market demand. There can be no assurance that the Company will be able to continue to obtain such specimens.

Quality Control Panels currently span the immunologic markers for AIDS (i.e., HIV), Hepatitis (A, B and C), Lyme Disease and ToRCH (Toxoplasma, rubella, cytomegalovirus and herpes simplex virus). New introductions this year include Performance Panels for HIV, EBV and HCV, Qualification Panels for HIV, HTLV, CMV and HCV, and additional Seroconversion Panels for HIV and HCV. Included in the Performance Panel category are the first "Worldwide" panels for HCV and HIV that include specimens from throughout the world reactive for variants and subtypes of these deadly viruses.

Accurun(r) Run Controls

End-users of test kits utilize Run Controls to confirm the validity of results by monitoring test performance, thereby minimizing false negative test results and improving error detection. Run controls consist of one or more specimens of known reactivity that are tested together with donor or patient samples in an assay to determine whether the assay is performing within the manufacturer's specifications. Clinical laboratories generally process their patient specimens in a batch processing mode, and typically include 25 to 100 specimens to be tested in each batch (a "run"). Large laboratories may perform several runs per day, while smaller laboratories may perform only a single run each day, or sometimes only several runs per week. A clinical laboratory using a Run Control will place the Run Control product in a testing well or test-tube, normally used for a specimen, and will test it in the same manner that it tests the donor or patient specimens. It will then compare the results generated to an acceptable range, determined by the user, to measure whether the other specimens are being accurately tested. The Run Control result must be within the acceptable range to be considered valid. This is often tracked visually using a Levey-Jennings chart. Depending upon a particular laboratory's quality control practices, it may use several Run Controls on each run or it may simply use a Run Control in a single run at the beginning and end of the day.

In 1997, the Company introduced its AccuChartTM tracking and charting software. Used as part of a laboratory's quality assurance program, AccuChartTM runs on a PC and is designed to provide the data tracking capability needed to document laboratory performance.

The Company's Accurun(r) family of products is targeted at the emerging market of end-users of infectious disease test kits. The Company believes that it offers the most comprehensive line of Run Controls in the industry, and that its Accurun(r) products, in combination with its Quality Control Panel products, provide an extensive line of products for quality assurance in infectious disease testing. The Company intends to continue to expand its line of Accurun(r) products, thereby providing its customers with the convenience and cost effectiveness of a single supplier for independent run controls.

The Company introduced its first four Accurun(r) Run Control products in the fourth quarter of 1993 and has since developed and released for sale an additional 31 Accurun(r) products, for a total of 35

Run Controls. The majority of these products are available for diagnostic purposes; the others currently are limited to research use. Current Accurun(r) Run Control products range in price from $5 to $45 per milliliter and are described in the following table.

<TABLE>
<CAPTION>
ACCURUN(r) RUN CONTROLS

PRODUCT LINE	DESCRIPTION	CURRENT NUMBER OF PRODUCTS	PRIMARY CUSTOMERS
<S>	<C>	<C>	<C>
Accurun(r)1-99	Multi-marker Run Control for immunological tests	6	Blood Banks
Accurun(r)100-199	Single-marker Run Control for immunological tests	22	Hospitals and clinical reference laboratories
Accurun(r)200-299	Multi-marker Run Control for molecular tests	1	Research and specialty laboratories
Accurun(r)300-399	Single-marker Run Control for immunological tests	3	Research and specialty laboratories
Accurun(r)800-899	Negative Run Control for immunological and molecular tests	3	All laboratories

</TABLE>

All of the Company's Accurun(r) Run Controls require FDA premarket clearance (a 510(k)) prior to being marketed for diagnostic use, under current FDA rules. The FDA Modernization Act of 1997 will likely produce new regulations exempting some of these products from FDA submission requirements, but the new rules are not yet in place. As of March 1, 1998, a total of nine products in the Accurun 1(r) line and 14 single analyte Accurun(controls have received 510(k) clearance from the FDA. An additional three Accurun(r) single analyte products have been submitted but have not yet received FDA approval.

Diagnostic Components

Diagnostic Components are the individual materials supplied to infectious disease test kit manufacturers and combined (often after further processing by the manufacturer) with other materials to become the various fluid components of the manufacturer's test kit. The Company supplies Diagnostic Components in four product lines: Normal Human Plasma, Normal Human Serum, Basematrix, and Characterized Disease State Serum and Plasma. Normal Human Plasma and Serum are both the clear liquid portion of blood which contains proteins, antibodies, hormones and other substances, except that the Serum product has had the clotting factors removed. Basematrix, the Company's proprietary processed serum product that has been chemically converted from plasma, is designed to be a highly-stable, lower cost substitute for most Normal Human Serum and Plasma applications. Characterized Disease State Serum and Plasma are collected from specific blood donors pre-selected because of the presence or absence of a particular disease marker. The Company often customizes its Diagnostic Components by further processing the raw material to meet the specifications of the test kit manufacturer. The Company's Diagnostic Components range in price from $0.25 to $60 per milliliter, with the majority selling between $0.50 and $5 per milliliter.

Laboratory Instruments

In 1997, the Company acquired the business and net assets of Source Scientific, Inc., a laboratory instrument manufacturer in Garden Grove, California. As a result of this acquisition, the Company through its wholly owned subsidiary, BBI Source Scientific, Inc. ("BBI Source"), now has expertise in IVD instruments, adding to its existing capability in IVD quality control products. This is significant since, in addition to the test kit and a well trained technician, the third element to an accurate test result is a properly calibrated instrument to read the test result. See also Note 2 to the Company's Notes to Consolidated Financial Statements in Item 8 hereunder regarding the Company's purchase of the business and net assets of Source Scientific, Inc.

BBI Source designs, manufactures and markets Laboratory Instruments used in hospitals, clinics, and research, environmental and food testing laboratories. They are generally sold on a private-label or OEM basis for other companies utilizing a common hardware technology platform. The instruments manufactured by the Company use advanced optical detection methods (luminescence, fluorescence, reflectance, photometry), robotics, fluidics, and unique software, which is desired by customer companies reselling the state-of-the-art instrumentation systems to clinical distributors and laboratories worldwide.

The products currently being offered by BBI Source have been commercialized since 1985. BBI Source expects that its newest products will be available for production in late 1998. Management believes that products address important market segments in biomedical and clinical diagnostic testing and environmental monitoring and food testing research. The BBI Source product line includes the following:

MicroChem(r) Photometer. A compact, low-cost, photometer designed for immunoassay and general chemistry applications.

ChemStat(r) Automated Photometer. A high-speed, automated photometer with a sample capacity of 95 tubes and a read rate of one sample per second. This product is suited for high-volume processing.

ChemStat(r) Plus Automated Photometer. The ChemStat Plus is a second generation photometer compatible with the EXEC-WASH Washing System that features menu-driven software and optional on-board dispensers.

E/LUMINA(r) Luminescence Analyzer. A flexible luminometer for both "flash" and "glow" luminescence methods, this automated system reads up to 114 samples and reports final results.

E/LUMINA(r) 2E Automated Luminescence Analyzer. This detection system is designed with the same features as the E/LUMINA Luminescence Analyzer that can be used to detect faster "flash" luminescence techniques and adapts to various formats, as well as to liquid phase assays.

EXEC-WASH(r) Washing System. An automated immunoassay washing system that can be quickly configured by the user to wash different solid-phase assay formats by a propriety manifold design. The EXEC-WASH is fully compatible with a variety of other Company products, such as the ChemStat, the ChemStat Plus and the E/LUMINA Luminescence Analyzer.

PlateMate(r) Reader. The Company expects to have available in 1998 the PlateMate Reader, a microfluidics well-reading system combining robotics and fluidics. The current design of the PlateMate Reader performs photometric assays in the 400 to 700 nm range for 96 samples at a time and prints out results directly on a built-in printer.

Protocol Design Software System. A development tool for researchers and assay manufacturers, the program operates under Microsoft(r) Windows and serves as the master programing center for EXEC-WASH systems to create fluid handling protocols.

FOCUS(r). Florescence Polarization System. Fluorescence polarization ("FP") is a technology that has dominated the clinical market for therapeutic

and abuse drug level testing for many years.

FluoroStat(r) Reader. The FluoroStat is a compact fluorometer that is highly sensitive and provides a broad dynamic range for tube-based fluorometric assays. The instrument was introduced in September 1995 and is currently available for OEM manufacture.

Services

The Company seeks to focus its specialty laboratory services in both the clinical reference laboratory testing and advanced research areas. The Company concentrates its services in those areas of infectious disease testing which are complementary to its quality control and diagnostic products businesses.

Specialty Clinical Laboratory Testing. Through its wholly owned subsidiary, BBI Clinical Laboratories, Inc. the Company operates an independent specialty clinical reference laboratory which performs both routine and sophisticated infectious disease testing in microbiology, immunology and molecular biology, with special emphasis in AIDS, Viral Hepatitis and Lyme Disease. The Company's specialty clinical laboratory combines traditional microbiology, advanced immunology, and current molecular diagnostic techniques, such as PCR, to detect and identify microorganisms, their antigens and related antibodies, and their nucleic acids (i.e., DNA and RNA). Customers include physicians, clinics, hospitals and other clinical/research laboratories.

Contract Research. The Company, through its wholly owned subsidiary, BBI Biotech Research Laboratories, Inc. ("BBI Biotech"), offers a variety of contract research services in molecular biology, cell biology and immunology to governmental agencies, diagnostic test kit manufacturers and biomedical researchers. Molecular biology services include DNA sequencing, recombinant DNA support, probe labeling and custom PCR assays. Cell biology and immunology services include sterility testing, virus infectivity assays, cultivations of virus or bacteria from clinical specimens, preparation of viral or bacterial antigens or nucleic acids, and production of antibodies. The Company is currently providing contract research services under several contracts and grants. These services primarily related to infectious diseases, and include the following: assessment of the efficiency of candidate HIV vaccines in a monkey model system; development of a multiplex RT PCR based test for HIV-1, HTLV I/II, HCV, and HBV; DNA sequencing of human genes involved in neurological disorders; plate assays for HIV-1 genotyping; and eliciting neutralizing antibodies targeting HIV. In addition, since 1983, BBI Biotech, has provided blood processing and repository services for the National Cancer Institute ("NCI"), also a part of the National Institutes of Health ("NIH"). The repository stores over 2,000,000 specimens and processes or ships up to several thousand specimens per week in support of various NIH cancer and virus research programs. A new one year NCI repository contract was signed in February 1997 which includes four one year renewal options exercisable by NCI. The total value of the contract in the first year is $916,000, and including all options, is $4.8 million. The initial renewal option has been approved by the NCI although there can be no assurance that any subsequent options will be exercised.

Clinical Trials. The Company conducts clinical trials for domestic and foreign test kit manufacturers. Test kit manufacturers must conduct such trials to collect data for submission to the United States FDA and other regulatory agencies. By providing this service, the Company is able to maintain close contact with test kit manufacturers and regulators, and is able to evaluate new technologies in various stages of development. The Company believes that the reputation of its laboratory and scientific staff, its large number of Quality Control Panels, and its inventory of

characterized serum and plasma specimens assist the Company in marketing its clinical trial services to its customers. The Company has performed clinical trials for a number of United States and foreign test kit manufacturers seeking to obtain FDA approval for their infectious disease test kits.

Laboratory Instrumentation Services. BBI Source offers design, development and manufacturing services to companies seeking to market biomedical products manufactured under government-approved manufacturing practices. The OEM services range in complexity from contract manufacturing to

full system development and distribution.

BBI Source also provides after-sales-service. Management believes that after-sales service is a major marketing advantage in many of the Company's markets, since many of the Company's customers do not maintain their own full service departments. Servi-Trak(r), a proprietary software program, is a key element of this after-sales service. The Company's service department is located at BBI Source's facility in Garden Grove, California. A fully functional service center located in Giessen, Germany, is contracted by the Company to provide European service and support.

On March 9, 1998, the Company announced plans to modify a previously announced 3-year contract with ABX Hematology, Inc. ("ABX") and its parent company, ABX Hematologie, SA (France). Under the contract, the Company provided technical, customer and field services for instruments sold by ABX in the United States. Under the modified agreement, individual customer service contracts will be assigned to ABX and ABX will assume responsibility for its United States instruments. The Company will provide certain consulting services through March 1999 to assist ABX in establishing a sales, customer service, technical support, and field service operation in the United States for its hematology instrument and reagent business. In addition, the Company has agreed to allow ABX to occupy space at its California facility during the period of the agreement. The Company's personnel associated with this contract, included the nationwide field service organization and hotline technical support, will be offered employment by ABX.

Drug Screening Program. As a subcontractor for an NIH AIDS grant held by the University of North Carolina at Chapel Hill, the Company has established an anti-HIV drug screening program to test a large number of natural products (largely plant derivatives) to determine whether they inhibit HIV replication in an in vitro assay system. These in vitro assays are also offered as a service to researchers and pharmaceutical companies who wish to test various candidate anti-viral agents for anti-HIV activity.

Research and Development

The Company's research and development effort is focused on the development of (i) new and improved Quality Control Products (Panels and Accurun(r)) for the emerging end-user market, (ii) new products for existing customers, (iii) Diagnostic Components for use with test kits for both new test methodologies and new diseases, (iv) new laboratory instruments and mechanical and optical detection techniques, and (v) infectious disease testing services using PCR and other amplification assays for AIDS, Viral Hepatitis, Lyme Disease and Chlamydia, among others. The Company has approximately 36 full or part-time employees involved in its research and development effort. For 1997 the Company increased spending on research and development as a percentage of revenues compared to 1996 and expects to continue to increase such expenditures as a percentage of revenues for the next several years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Results of Operations." The Company's research scientists work closely with sales, marketing, manufacturing, regulatory and finance personnel to identify and prioritize the development of new products and services.

The Company's product development activities center on the identification and characterization of materials for the manufacture of new Quality Control Products and the replacement of sold-out products. During 1997, the Company introduced 32 new Seroconversion, Performance, Sensitivity and Qualification Panel products, as well as 6 new Accurun(r) Run Controls, and 34 OEM Panels. The

Company is developing new Quality Control Products for use with both immunological and molecular diagnostic tests for subtypes and variants of HIV, HCV and HBV, and a variety of controls targeted for leading instrument platforms. The Company has increased the number of off-the-shelf Quality Control Products it offers from approximately 20 products in 1990 to approximately 167 in 1997.

The Company's product development activities related to Laboratory Instruments are centered on additional configurations for its PlateMate(r) microtiter plate reader and the development of a "reflectance" reader to produce qualitative results from rapid IVD tests using dry chemistry (strip)

technology. In addition, the Company continues to work on applications for existing products to broaden their utilization.

The Company is also developing new and improved infectious disease tests which offer potential for above average profit for use in its specialty laboratory business. This includes emphasis on additional applications of PCR and other amplification technologies to infectious disease diagnostics, beyond its current assays for the pathogens of AIDS, Viral Hepatitis, Lyme Disease and Herpes, and for the direct detection of other infectious agents in blood, tissues and other body fluids.

From time to time in the past, the Company has funded a portion of its research and development activities from grants provided by various agencies and departments of the United States government. See also "-Services-Contract Research."

Strategic Alliances

University of North Carolina at Chapel Hill ("UNC"). The Company is directly supporting a drug discovery program at UNC, in which a full-time research scientist is working to develop synthetic derivatives of anti-HIV compounds that have been discovered pursuant to the Company's joint collaboration with UNC. This research scientist is also working to introduce modifications to these derivatives that would make them more soluble, less toxic, or otherwise enhance their anti-viral properties. UNC has licensed to the Company exclusive worldwide rights to three series of patent applications filed by the Company and UNC with respect to three classes of anti-HIV compounds. Two such compounds have exhibited therapeutic indices in in vitro test model systems in excess of those recorded for AZT under comparable test conditions. The Company is expending approximately $150,000 per year for research and development relating to these compounds. In addition, under this license, the Company will also have the rights to any new anti-HIV compounds or derivatives developed in the course of this sponsored research, provided the Company obtains certain regulatory approvals from the FDA. See also "-Services-Drug Screening program."

Ajinomoto Co., Inc. The Company entered into an agreement with Ajinomoto Co., Inc. in October 1995 pursuant to which the Company is performing research regarding among other things, whether tests for certain amino acids in plasma can be used to determine a person's immune status, particularly in chronic fatigue syndrome. This project is funded by Ajinomoto and has a three year budget of approximately $1,000,000. Discoveries and inventions arising from the research will be owned by Ajinomoto, but the Company has the right of first refusal to obtain certain exclusive licenses from Ajinomoto of any patented technology arising from the research. The Company is entitled to certain royalties based upon a percentage of sales of products arising out of the research. This agreement expires in September 1998. The Company does not know if the contract will be renewed.

BioSeq, Inc. In October 1996, the Company entered into a strategic alliance with BioSeq, Inc. an early stage biotechnology company that is developing a technology that may, through the use of pressure, be able to more precisely control chemical reactions. The Company believes that this technology may be useful for sample preparation in connection with both molecular and immunological testing, process purification, sequencing, synthesizing and characterizing nucleic acids and proteins, which may then allow for the more precise identification of infectious disease agents. See also Note 5 to the Company's

Notes to Consolidated Financial Statements in Item 8 hereunder regarding the Company's investment in BioSeq, Inc. The Company, in a seperate transaction, purchased a licensed technology from BioSeq, Inc. on March 20, 1998. See also Note 14 to the Company's Note to Consolidated Financial Statements and Item 8 hereunder regarding subsequent event.

Sales and Marketing

The Company's sales and marketing efforts are directed by a Senior Vice President of Sales and Marketing and includes 25 sales people and 9 other full-time marketing and customer services employees.

The Company's marketing strategy is focused upon addressing the needs of its customers in the infectious disease testing market throughout the entire test kit life-cycle, from initial research and development, through the regulatory approval process and test kit production, to training, troubleshooting and routine use by end-users such as clinical laboratories, hospitals and blood banks.

The Company recently has begun to focus its sales and marketing efforts on the emerging end-user market for quality control products for infectious disease test kits. To promote this objective, the Company has implemented a major marketing platform, known as "Total Quality System" ("TQS"). TQS is a package of Quality Control Products, including the Company's Accurun(r) Run Controls, which is designed to provide test kit end-users with the products needed in an overall quality assurance program. These products enable laboratories to evaluate each of the key elements involved in the testing process: the test kit, laboratory instrument and laboratory personnel. The Company believes that TQS effectively addresses the need for end-users to ensure the accuracy of their test results. The Company intends to continue to expand its sales and marketing activities with respect to its Accurun(r) line of run control products.

The Company's products are currently sold through a combination of telephone, mail, third party distributors and direct sales efforts. Domestically, Diagnostic Products are sold through a direct sales force consisting of a sales director, three regional managers and nine sales representatives. Internationally, the Company distributes its Diagnostic Products both directly and through 21 independent distributors located in Japan, Australia, South America, Southeast Asia, Israel and Europe. The Company's international sales manager oversees the Company's foreign distributors. The Company's Laboratory Instruments are sold through a direct domestic and international sales force consisting of two sales managers. Export sales, including sales to distributors, for the years ended December 31, 1995, 1996, and 1997 were $3.4 million, $4.3 million, and $5.2 million, respectively. See also Note 6 to the Consolidated Financial Statements.

The Company's Specialty Clinical Laboratory Testing services are marketed primarily through a direct domestic sales force consisting of seven sales representatives managed by a sales director. The sales representatives are located throughout the eastern and mid-western United States. They are supported internally by a client services representative.

The Company emphasizes high quality products and services, technical knowledge, and responsiveness to customer needs in its marketing activities for both products and services. The Company educates its distributors, customers and prospective customers about its products through a series of detailed marketing brochures, technical bulletins and pamphlets, press releases and direct mail pieces. These materials are supplemented by advertising campaigns in major industry publications, technical presentations, and exhibitions at local, national and international trade shows and expositions.

Customers

The Company's customers for Diagnostic Products comprise three major groups: (i) international diagnostics and pharmaceutical manufacturing companies, such as Abbott Diagnostics, Behring, Boehringer Mannheim, Chiron, Fujirebio, Hoffman LaRoche, Ortho Diagnostics (Johnson and Johnson), Sanofi Diagnostics and Sorin Biomedica; (ii) regulatory agencies such as the United States FDA, the British Public Health Laboratory Service, the French Institut National de la Transfusion Sanguine, and the German Paul Ehrlich Institute; and (iii) end-users of diagnostic test kits, such as hospital and independent clinical laboratories, including LabCorp, Quest and Smith Klein Beecham, public health laboratories and blood banks, including the American Red Cross, Swiss Red Cross, United Blood Services and Kaiser Permanente. The Company's customers for Laboratory Instruments consist of international diagnostic and pharmaceutical manufacturing companies and are generally sold on an OEM basis, for use by hospitals, and clinical and research laboratories. In addition, Laboratory Instruments are sold directly to environmental and food testing laboratories, and wineries. Customers include Mast Immuno Systems, ABX Hematology, Hybritech Inc., Vicam, and Toray Fuji Bionics Inc. The Company's Specialty Clinical Laboratory Testing services are sold to hospital and clinical laboratories, physicians, blood banks, researchers and other health

care providers. The Company's Contract Research services are typically offered under contracts to governmental agencies, diagnostic test kit manufacturers and biomedical researchers.

The Company does not have long-term contracts with its customers for Quality Control Products and Diagnostic Components. The Company's products are sold to its customers pursuant to purchase orders for discrete purchases. Laboratory Instruments sold on an OEM basis are usually done so under a one year contract with monthly delivery dates. Although the Company believes that its relationships with customers are satisfactory, termination of the Company's relationship with any one of its customers could have a material adverse effect on the Company.

During the fiscal years 1995, 1996 and 1997, sales to the Company's three largest customers accounted for an aggregate of approximately 20% of the Company's net sales, although the customers were not identical in each period. During the fiscal years 1995, 1996 and 1997, the combined revenues to all branches of the National Institutes of Health, a United States Government agency, accounted for approximately 13% of total consolidated revenues of the Company. While the Company believes that the loss of any one customer would have an adverse effect on its results, this risk is partially mitigated by the diversity of its customer base within the IVD industry and the different diseases and instrument platforms on which they focus.

Manufacturing and Operations

The Company manufactures and assembles Diagnostic Products at its facility in West Bridgewater, Massachusetts. Raw materials (primarily plasma and serum) are acquired from a variety of vendors and through a program of donor recruitment, screening, management, and plasma/serum collection and characterization. All important materials have multiple sources of supply. Laboratory Instruments are manufactured and assembled at the Company's facility in Garden Grove, California. Raw materials and subassemblies are acquired from a variety of vendors with multiple sources of supply.

The Company also operates a specialty clinical laboratory in New Britain, Connecticut, and a research and development laboratory in Gaithersburg, Maryland. See "Item 2 -- PROPERTIES."

Competition

The market for the Company's products and services is highly competitive. Many of the Company's competitors are larger than the Company and have greater financial, research, manufacturing, and marketing resources. Important competitive factors for the Company's products include product

quality, price, ease of use, customer service and reputation. In a broader sense, industry competition is based upon scientific and technical capability, proprietary know-how, access to adequate capital, the ability to develop and market products and processes, the ability to attract and retain qualified personnel, and the availability of patent protection. To the extent that the Company's products and services do not reflect technological advances, the Company's ability to compete in those products and services could be adversely affected.

In the area of Quality Control Products, the Company competes in the United States with NABI (formerly North American Biologicals, Inc.) in run controls and quality control panel products. with Dade International, Bio-Rad Laboratories, Inc., and Blackhawk Biosystems Inc. in run controls, and with a number of smaller, privately held companies in quality control panels. In Europe, in addition to the above, the Netherlands Red Cross has recently begun offering several run control and panel products. The Company believes that all of these competitors currently offer a more limited line of panel and run control products than the Company, although there can be no assurance these companies will not expand their product lines.

In the Diagnostic Components area, the Company competes against integrated plasma collection and processing companies such as Serologicals, Inc. and NABI, as well as smaller, independent plasma collection centers and brokers of plasma products. In the Diagnostic Components area, the Company competes on the basis of quality, breadth of product line, technical expertise

and reputation.

The laboratory instrument manufacturing industry is diverse and highly competitive. The Company believes its technology base, reputation for reliability, systems integration and service capabilities provide it with a competitive advantage over its competitors which include: Dynatech Corp, Kollsman Manufacturing Company, Inc., Bio-Tek Instruments Inc., Rela Inc. (part of Colorado Medtech, Inc.), as well as numerous, smaller companies, such as Awareness Technology Inc.

In the Specialty Clinical Laboratory Testing services portion of the Company's business, it competes with large national reference laboratories, such as LabCorp of America, Quest Laboratories and SmithKline Beecham Clinical Laboratories, as well as several independent regional laboratories, hospital laboratories, government contract laboratories and large research institutions. The Company believes that by focusing on the specialty clinical laboratory market, it is able to offer its customers a higher value-added service on the more complex diagnostic tests than the larger national reference laboratories.

Intellectual Property

The Company holds as trade secrets current technology used to prepare Basematrix and other blood-based products. None of the Company's Quality Control Products or Diagnostic Components has been patented. The Company relies primarily on a combination of trade secrets and non-disclosure and confidentiality agreements to establish and protect its proprietary rights in its technology and products. There can be no assurance that others will not independently develop or otherwise acquire the same, similar or more advanced trade secrets and know-how.

BBI Source has also relied on trade secrets and proprietary know-how for its Laboratory Instruments which it protects in part by entering into confidentiality agreements with persons or parties deemed appropriate by management. In addition, the Company currently has five issued United States patents, and one United States patent application on file, covering significant aspects of the Company's core instrument technology and techniques, as well as several electronic and mechanical designs employed in the Company's existing products.

The Company owns two United States patents related to its contracts and services work, and, jointly with UNC, has four additional United States patents relating to compounds, pharmaceutical compositions and therapeutic methods in connection with the Company's drug discovery program at

UNC. One additional United States application and foreign applications for all five of the joint patents are pending.

The Company has no reason to believe that its products and proprietary methods infringe the proprietary rights of any other party. There can be no assurance, however, that other parties will not assert infringement claims in the future.

Government Regulation

The manufacture and distribution of medical devices, including products manufactured by the Company that are intended for in vitro diagnostic use, are subject to extensive government regulation in the United States and in other countries.

In the United States, the Food, Drug, and Cosmetic Act ("FDCA") prohibits the marketing of most in vitro diagnostic products until they have been cleared or approved by the FDA, a process that is time-consuming, expensive, and uncertain. In vitro diagnostic products must be the subject of either a premarket notification clearance (a "510(k)") or an approved premarket approval application ("PMA"). With respect to devices reviewed through the 510(k) process, a company may not market a device for diagnostic use until an order is issued by the FDA finding the product to be substantially equivalent to a legally marketed device. A 510(k) submission may involve the presentation of a substantial volume of data, including clinical data, and may require a substantial period of review. With respect to devices reviewed through the PMA process, a company may not market a device until FDA has approved a PMA

application, which must be supported by extensive data, including preclinical and clinical trial data, literature, and manufacturing information to prove the safety and effectiveness of the device.

The Company's Accurun(r) Run Controls, when marketed for diagnostic use, have been classified by the FDA as medical devices. The FDA could, however, require that some products be reviewed through the PMA process, which generally involves a longer review period and the submission of more information to FDA. There can be no assurance that the Company will obtain regulatory approvals on a timely basis, if at all. Failure to obtain regulatory approvals in a timely fashion or at all could have a material adverse effect on the Company.

As of March 1, 1998, a total of nine products in the Accurun 1(r) line and fourteen Accurun(r) single analyte controls have received 510(k) clearance from the FDA. An additional three Accurun(r) single analyte controls have been submitted but have not yet received FDA clearance.

Some of the Company's Accurun(r) run controls are currently marketed "for research use only." Such products do not currently require FDA premarket clearance or approval. The labeling of these products limits their use to research. It is possible, however, that some purchasers of these products may use them for diagnostic purposes despite the Company's intended use. In these circumstances, the FDA could allege that these products should have been cleared or approved by the FDA prior to marketing, and initiate enforcement action against the Company, which could have a material adverse effect on the Company. The FDA has recently issued a Draft Policy Compliance Guideline, which, if it takes effect as written, will strictly limit the sale of products labeled "for research use only." The Company is monitoring this situation, and will adapt its policies as required.

BBI Source obtains 510(k) approval for all laboratory instrumentation designed and manufactured in its Garden Grove facility.

The Company's Diagnostic Products and Laboratory Instruments product groups are both registered as medical device manufacturers with the FDA, and file listings of their products semi-annually. The Company's facilities in West Bridgewater, Massachusetts for Diagnostic Products and Garden Grove, California for Laboratory Instruments are FDA Good Manufacturing Practices

(FDA/GMP) facilities, and, as such, maintain high standards of quality in manufacturing, testing and documentation, and implement strict GMP guidelines governing reagent and instrument manufacturing.

Once cleared or approved, medical devices are subject to pervasive and continuing regulation by the FDA, including, but not limited to, good manufacturing practices ("GMP") regulations governing testing, control, and documentation; and reporting of adverse experiences with the use of the device. Ongoing compliance with GMP and other applicable regulatory requirements is monitored through periodic inspections. FDA regulations require agency clearance or approval for certain changes if they do or could affect the safety and effectiveness of the device, including, for example, new indications for use, labeling changes or changes in design or manufacturing methods. In addition, both before and after clearance or approval, medical devices are subject to certain export and import requirements under the FDCA. Product labeling and promotional activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. Products may be promoted by the Company only for their approved use. Failure to comply with these and other regulatory requirements can result, among other consequences, in failure to obtain premarket approvals, withdrawal of approvals, total or partial suspension of product distribution, injunctions, civil penalties, recall or seizures of products and criminal prosecution.

The Company believes that its Quality Control Panels are not regulated by the FDA because they are not intended for diagnostic purposes. The Company believes that its Diagnostic Components, which are components of in vitro diagnostic products, may be subject to certain regulatory requirements under the FDCA and other laws administered by the FDA, but do not require that the Company obtain a premarket approval or clearance. There can be no assurance, however, that the FDA would agree or that the FDA will not adopt a different interpretation of the FDCA or other laws it administers, which could have a

material adverse effect on the Company.

The Company's Diagnostic Products and Laboratory Instruments groups are both ISO9001 certified, with registration by TUV Rheinland. The Laboratory Instrument group is also certified to EN46001, a set of supplementary requirements applicable to their products.

Laws and regulations affecting some of the Company's products are in effect in many of the countries in which the Company markets or intends to market its products. These requirements vary from country to country. Member states of the European Economic Area (which is composed of the European Union members and the European Free Trade Association members) are in the process of adopting various product and service "Directives" to address essential health, safety, and environmental requirements associated with the subject products and services. The "Directives" cover both quality system requirements (ISO Series 9000 Standards and the EN46001 Requirements) and product and marketing related requirements. In addition, some jurisdictions have requirements related to marketing of the Company's products. There can be no assurance that the Company will be able to obtain any regulatory approvals required to market its products on a timely basis, or at all. Delays in receipt of, or failure to receive such approvals, or the failure to comply with regulatory requirements in these countries or states could lead to compliance action, which could have a material adverse effect on the Company's business, financial condition, or results of operations.

The Company's service-related business (clinical trials, infectious disease testing, and contract research) is subject to other national and local requirements. The Company's facilities are subject to review, inspection, licensure or accreditation by some states, national professional organizations (College of American Pathologists), and other national regulatory agencies (Health Care Financing Administration). Studies to evaluate the safety or effectiveness of FDA regulated products (primarily human and animal drugs or biologics) must also be conducted in conformance with relevant FDA requirements, including Good Laboratory Practice ("GLP") regulations, investigational new drug or device regulations, Institutional Review Board ("IRB") regulations and informed consent regulations.

The Clinical Laboratory Improvement Amendments of 1988 ("CLIA") prohibits laboratories from performing in vitro tests for the purpose of providing information for the diagnosis, prevention or treatment of any disease or impairment of, or the assessment of, the health of human beings unless there is in effect for such laboratories a certificate issued by the US Department of Health and Human Services ("HHS") applicable to the category of examination or procedure performed.

The Company currently holds permits issued by HHS (CLIA license), Centers for Disease Control and Prevention (Importation of Etiological Agents or Vectors of Human Diseases), the US Department of Agriculture (Importation and Transportation of Controlled Materials and Organisms and Vectors) and the US Nuclear Regulatory Commission (in vitro testing with byproduct material under general license, covering the use of certain radioimmunoassay test methods).

The Company is also subject to government regulation under the Clean Water Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act, the Atomic Energy Act, and other national, state and local restrictions relating to the use and disposal of biohazardous, radioactive and other hazardous substances and wastes. The Company is an exempt small quantity generator of hazardous waste and has a US Environmental Protection Agency identification number. The Company is also registered with the US Nuclear Regulatory Commission for use of certain radioactive materials. The Company is also subject to various state regulatory requirements governing the handling of and disposal of biohazardous, radioactive and hazardous wastes. The Company has never been a party to any environmental proceeding.

Internationally, some of the Company's products are subject to additional regulatory requirements, which vary significantly from country to country. Each country in which the Company's products and services are offered must be evaluated independently to determine the country's particular requirements. In foreign countries, the Company's distributors are generally responsible for obtaining any required government consents.

Employees

As of December 31, 1997 the Company employed 282 persons, all of whom were located in the United States. Of these, 102 persons were employed by the West Bridgewater, Massachusetts company, 65 by the New Britain, Connecticut company, 48 by the Gaithersburg, Maryland company, and 67 by the Garden Grove, California company. None of the Company's employees is covered by a collective bargaining agreement. The Company believes that it has a satisfactory relationship with its employees.

Executive Officers of the Registrant

The following table sets forth the names, ages and positions of the current executive officers of the Registrant as of December 31, 1997:

Name	Age	Position
Richard T. Schumacher	47	President; Chief Executive Officer and Chairman of the Board
Kevin W. Quinlan	47	Senior Vice President, Finance; Chief Financial Officer; Treasurer and Director
Patricia E. Garrett, Ph.D.	54	Senior Vice President, Regulatory Affairs & Strategic Programs
Mark M. Manak, Ph.D.	46	Senior Vice President, Research and Development
Richard A Sullivan	57	Senior Vice President, Laboratory Instrumentation
Richard C. Tilton, Ph.D.	61	Senior Vice President, Specialty Laboratory Services
Barry M. Warren	50	Senior Vice President, Sales & Marketing
Ronald V. DiPaolo, Ph.D.	53	Vice President, Manufacturing
Richard H. Newhouse, Ph.D.	54	Vice President, Materials Management

Mr. Schumacher, the founder of the Company, has been the President and a Director since 1986, and Chief Executive Officer and Chairman since 1992. Mr. Schumacher served as the Director of Infectious Disease Services for Clinical Science Laboratory, a New England-based medical reference laboratory, from 1986 to 1988. From 1972 to 1985, Mr. Schumacher was employed by the Center for Blood Research, a nonprofit medical research institute associated with Harvard Medical School. Mr. Schumacher received a B.S. in zoology from the University of New Hampshire.

Mr. Quinlan, a Director of the Company since 1986, has been Senior Vice President, Finance, Chief Financial Officer and Treasurer since January 1993. From 1990 to December 1992, he was the Chief Financial Officer of ParcTec, Inc. a New York-based leasing company. Mr. Quinlan served as Vice President and Assistant Treasurer of American Finance Group, Inc. from 1981 to 1989 and was employed by Coopers & Lybrand from 1975 to 1980. Mr. Quinlan is a certified public accountant and received a M.S. in accounting from Northeastern University and a B.S. in economics from the University of New Hampshire.

Dr. Garrett has been Senior Vice President, Regulatory Affairs & Strategic Programs since 1988. From 1980 to 1987, Dr. Garrett served as the Technical Director of the Chemistry Laboratory, Department of Laboratory Medicine at the Lahey Clinic Medical Center. Dr. Garrett earned her Ph.D. from the University of Colorado and was a postdoctoral research associate at Harvard University, Oregon State University, Massachusetts Institute of Technology and the University of British Columbia.

Dr. Manak has served as Senior Vice President, Research and Development

since 1992. From 1980 to 1992, he served as Senior Research Scientist, Molecular Biology, of Biotech Research Laboratories. Dr. Manak received his Ph.D. in biochemistry from the University of Connecticut and completed postdoctoral research work in biochemistry/virology at Johns Hopkins University.

Mr. Sullivan has served as Senior Vice President, Laboratory Instrumentation since the Company's acquisition of the business of Source Scientific, Inc. ("Source") in July 1997. Prior to that from 1994 to 1997, Mr. Sullivan was Chairman, President and Chief Executive Officer of Source. He held the position of Executive Vice President and General Manager of Source from 1993 to 1994, and was Vice President Sales & Marketing for MicroProbe Corporation from 1989 to 1993. Previously, he was President of LAB2000 in Florida, a company specialized in import and export of clinical and industrial products worldwide. Mr. Sullivan holds a BS in Medical Technology from the University of Buffalo, New York and a MBA from Pace University, New York.

Dr. Tilton has served as Senior Vice President, Specialty Laboratory Services since the Company's acquisition of BBI Clinical Laboratories, Inc. ("BBICL") in 1993 and was one of the

founders of BBICL, where he served as President from 1989 to 1993. Dr. Tilton has 25 years of experience in university hospital clinical microbiology laboratories and is board certified in medical and public health microbiology. Dr. Tilton received his Ph.D. in microbiology from the University of Massachusetts.

Mr. Warren has served as Senior Vice President, Sales & Marketing since 1993. From 1985 to 1993, Mr. Warren served as Group Director of Marketing of Organon Teknika, a manufacturer of infectious disease reagents. Mr. Warren received an M.A. in political science from Loyola University of Chicago and a B.A. from Loyola University.

Dr. DiPaolo has recently been appointed Vice President, Manufacturing. Prior to that he served as Vice President of Operations since 1993. Prior to joining the Company, Dr. DiPaolo served as Vice President and General Manager of the Biomedical Products Division of Collaborative Research, a medical research products company from 1986 to 1989. From 1975 to 1986 he was employed by DuPont New England Nuclear, an in vitro test kit manufacturer. Dr. DiPaolo received his Ph.D. in biochemistry from Massachusetts Institute of Technology and later completed postdoctoral research at the Eunice Shriver Center in Waltham, Massachusetts.

Dr. Newhouse has been Vice President of Materials Management since 1997. Prior to joining the Company, Dr. Newhouse served as Vice President of Laboratory Services for Serologicals Corporation, an Atlanta, Georgia based biopharmaceutical company from 1989 to 1997. Prior to that he was employed for 20 years in several medical diagnostics companies holding titles such as Vice President Operations, Laboratory Director, and Director of Manufacturing. Dr. Newhouse received his Ph.D. in clinical pathology from the University of Maryland.

Officers are elected by, and serve at the pleasure of, the Board of Directors.

ITEM 2. PROPERTIES.

The Company owns its corporate offices and Diagnostic Products manufacturing facility located in a two story, 32,000 square foot building in West Bridgewater, Massachusetts. The Company has been renovating and expanding this facility during the past year, and believes that upon completion of renovations in mid 1998, its facility in West Bridgewater will be sufficient to meet its foreseeable needs.

The Company leases 41,000 square feet of space in Garden Grove, California where it manufactures Laboratory Instruments. The lease continues until February 1, 2002 and the Company has an option to renew at market rates.

The Company leases its laboratory facilities in Gaithersburg, Maryland and New Britain, Connecticut. The Gaithersburg facility contains 36,500 square feet of custom built laboratory space, and is occupied under a ten-year lease that is due to expire on October 31, 2007. The New Britain facility has 15,000

square feet, most of which is dedicated to laboratory space. The lease is for five years and is due to expire on July 30, 2000; the Company has an option to renew for an additional five years.

ITEM 3. LEGAL PROCEEDINGS.

There are no material legal proceedings pending against the Company or its subsidiaries.

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

No matter was submitted during the fourth quarter of fiscal 1997 to a vote of security holders of the Company.

PART II

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

The Company completed an initial public offering of its Common Stock, $.01 par value, (the "Common Stock") on October 31, 1996. The Common Stock is listed on the NASDAQ National Market under the symbol "BBII".

The following table sets forth the high and low closing price, by quarter, since the Company's initial public offering.

	Q1		Q2		Q3		Q4	
	High	Low	High	Low	High	Low	High	Low
1997	10.250	6.063	11.375	7.750	8.875	6.000	8.000	4.875
1996	---	---	---	---	---	---	8.500	6.750

As of December 31, 1997, there were 20,000,000 shares of Common Stock authorized of which 4,622,566 shares were outstanding, held of record by approximately 1,500 stockholders.

The Company has not declared or paid any dividends on its Common Stock. In accordance with the terms of the Company's loan agreement with its bank, payment of dividends on Common Stock requires bank approval. The Company does not expect to recommend the payment of a dividend as it plans to continue to reinvest profits to expand its business.

ITEM 6. SELECTED FINANCIAL DATA

The statement of income data for each of the fiscal years in the five year period ended December 31, 1997, and the balance sheet data as of December 31, 1993, 1994, 1995, 1996 and 1997, have been derived from the consolidated financial statements of the Company which have been audited by Coopers & Lybrand L.L.P., independent accountants. This data should be read in conjunction with Item 8--"Consolidated Financial Statements and Supplementary Data", and Item 7--"Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere herein.

<TABLE>
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	Year Ended December 31,				
	1997 (1)	1996	1995	1994	1993(2)
Consolidated Statement of Income Data:	(In thousands, except per share data)				
REVENUE:					
<S>	<C>	<C>	<C>	<C>	<C>
Products	$11,711	$ 8,470	$ 6,622	$ 5,982	$3,942
Services	10,588	7,039	5,649	4,741	5,215
Total revenue	22,299	15,509	12,271	10,723	9,157

COSTS AND EXPENSES:					
Cost of product sales	5,773	4,252	3,564	3,194	2,088
Cost of services	7,239	4,856	4,168	3,416	3,965
Research and development	1,311	797	375	469	279
Selling and marketing	3,241	2,188	1,340	1,192	894
General and administrative	3,343	2,401	2,316	2,047	1,619
Total operating costs and expenses	20,907	14,494	11,763	10,318	8,845
Income from operations	1,392	1,015	508	405	312
Interest expense, net	283	(213)	(336)	(244)	(179)
Income before income taxes and extraordinary item	1,675	802	172	161	133
Provision for income taxes	(670)	(321)	(69)	(64)	(41)
Income before extraordinary item	1,005	481	103	97	92
Extraordinary item-gain on elimination of debt, net of income taxes	--	--	--	--	50
Net income	$ 1,005	$ 481	$ 103	$ 97	$ 142
Net income per share, basic	$ 0.23	$ 0.17	$ 0.04	$ 0.04	$ 0.06
Net income per share, diluted	$ 0.21	$ 0.14	$ 0.03	$ 0.03	$ 0.05
Number of shares used to calculate net income per share					
Basic	4,438	2,916	2,570	2,552	2,403
Diluted	4,780	3,340	3,040	3,019	2,794

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	December 31,				
	1997	1996	1995	1994	1993
Consolidated Balance Sheet Data:	(In thousands, except per share data)				
<S>	<C>	<C>	<C>	<C>	<C>
Working capital(3)	$ 9,576	$12,836	$4,688	$4,686	$3,612
Total assets	23,630	19,798	9,928	8,076	6,870
Long term debt, less current maturities(3)	216	41	4,216	3,180	2,381
Total stockholders' equity	18,067	16,290	3,187	3,041	2,762
Dividends	--	--	--	--	--

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(1) Effective July 1, 1997, the Company acquired the business and net assets of Source Scientific, Inc. for $1,994,000 which increased 1997 revenues by $2,608,000.

(2) On June 30, 1993, the Company exercised its option to pre-pay the acquisition note in connection with the 1992 purchase of BBI Biotech at a substantial discount from the balance due, resulting in an extraordinary gain of $50,000 net taxes of $33,000. The 1993 net income per share before such extraordinary gain was $0.04.

(3) Due to a modification of its maturity date, the Company's demand line of credit with an outstanding amount of $1,895,000 as of December 31, 1993, has been presented as part of long-term debt (and excluded from current liabilities in calculating working capital) for 1993. This change was made to be consistent with its reclassification to long-term debt in 1994 and 1995.

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

Overview

The Company generates revenue from products and services provided primarily to the in vitro diagnostic infectious disease industry. There are two broad product classes: Diagnostic Products and Laboratory Instruments. Diagnostic Products consist of three groups: Quality Control Panels, Accurun(r)

Run Controls and Diagnostic Components. Services consist of Specialty Clinical Laboratory Testing, Contract Research, Clinical Trials, Laboratory Instrumentation Services, and Drug Screening. In the five full years since the Company's acquisition of BBI Biotech Research Laboratories ("BBI Biotech") and BBI Clinical Laboratories, Inc. ("BBICL"), the Company has experienced a shift in revenue mix towards increased product sales, as product revenue as a percentage of total revenue increased from 43.1% in 1993 to 52.5% in 1997, with a corresponding decrease in the percentage of total revenue provided by services.

The Company's gross profit margin increased from 33.9% in 1993 to 41.6% in 1997 principally as a result of the increased percentage of higher margin product revenues. Within products, the Company's Quality Control Products (Accurun(r) Run Controls and Quality Control Panels) have higher margins than the Company's Laboratory Instruments and Diagnostic Components. Within services, Contract Research gross margins are lower than other services. However, such contracts enable the Company to maintain certain scientific staff and capability that it might otherwise not be able to afford. The Company intends to continue to concentrate on the growth in sales of its Quality Control Products.

Historically, the Company's results of operations have been subject to quarterly fluctuations due to a variety of factors, including customer purchasing patterns, primarily driven by end-of-year expenditures, and seasonal demand during the summer months for certain laboratory testing services. In particular, the Company's sales of its Quality Control Products and Diagnostic Components typically have been highest in the fourth quarter and lowest in the first quarter of each fiscal year, whereas Specialty Clinical Laboratory Testing has generally reached a seasonal peak during the third quarter, coinciding with the peak incidence of Lyme Disease. Research Contracts are generally for large dollar amounts spread over a one or two year period, and upon completion, frequently do not have renewal phases. As a result they can cause large fluctuations in revenue and net income. In addition to staff dedicated to internal research and development, certain of the Company's technical staff work on both Contract Research for customers and Company sponsored research and development. The allocation of certain technical staff to such projects depends on the volume of Contract Research. As a result, research and development expenditures fluctuate due to increases or decreases in Contract Research.

To develop new Quality Control Products and support increased sales, the Company hired additional research and development staff in the second half of 1995 and sales and marketing staff in 1996 and 1997. The Company intends to continue to add staff to these departments but at a reduced rate. General and administrative expenses are not expected to increase at the same rate, as the Company has already incurred significant infrastructure expenses.

The Company does not have any foreign operations. However, the Company does have significant export sales in Europe, the Pacific Rim countries and Canada to agents under distribution agreements, as well as directly to test kit manufacturers. All sales are denominated in US dollars. Export sales for the years ended December 31, 1995, 1996, and 1997 were $3.4 million, $4.3 million, and $5.2 million, respectively. The Company expects that export sales will continue to be a significant source of revenue and operating income.

Results of Operations

The following table sets forth for the periods indicated the percentage of total revenue represented by certain items reflected in the Company's consolidated statements of operations:

	Year Ended December 31		
	1997	1996	1995
Revenue:			
Products	52.5%	54.6%	54.0%
Services	47.5	45.4	46.0
Total revenue	100.0	100.0	100.0
Gross profit	41.6	41.3	37.0

Operating expenses:			
Research and development	5.9	5.1	3.1
Selling and marketing	14.5	14.1	10.9
General and administrative	15.0	15.5	18.9
Total operating expenses	35.4	34.7	32.9
Income from operations	6.2	6.5	4.1
Interest income (expense)	1.3	(1.4)	(2.7)
Income before income taxes	7.5	5.1	1.4
Net income	4.5	3.1	0.8
Product gross profit	50.7%	49.8%	46.2%
Services gross profit	31.6%	31.0%	26.2%

Years Ended December 31, 1997 and 1996

The most significant event in 1997 effecting comparability of results with 1996 was the acquisition of the business of Source Scientific, Inc. effective July 1, 1997. The acquisition was completed by a wholly owned subsidiary of the Company, BBI Source Scientific, Inc., ("BBI Source") and was accounted for as an asset purchase. This effected every line of the income statement.

Total revenue increased 43.8%, or $6,790,000, to $22,299,000 in 1997 from $15,509,000 in 1996. The increase in revenue was the result of a 38.3% increase in product revenue of $3,241,000 to $11,711,000 from $8,470,000, and a 50.4% increase in service revenue of $3,549,000 to $10,588,000 from $7,039,000 in 1996. Approximately $1,416,000 of the product increase was attributable to the inclusion of BBI Source for the first time, and the balance of the increase was a result of a 34.0% increase in sales of Quality Control Products, particularly Accurun(r) from a higher volume of both new and existing products, offset in part by price decreases. Service revenue included $1,192,000 from inclusion of BBI Source, a 49.1% increase in contract research revenue as a result of new contracts, and a 32.6% increase in specialty clinical laboratory testing revenue as the Company's HIV PCR test introduced in September 1996, was offered for a full year in 1997. Overall for both products and services, prices declined slightly in 1997 versus 1996. In summary, even after excluding BBI Source, the Company's total revenue increased 27.0% in 1997 compared to 1996 with a 21.5% increase in product revenue, and a 33.5% increase in service revenue on strong volume performance by Quality Control Products, contract research, and specialty clinical laboratory testing.

Gross profit increased 45.1%, or $2,886,000, to $9,287,000 for 1997 from $6,401,000 in 1996. Product gross profit increased 40.8%, or $1,720,000, to $5,938,000 in 1997 from $4,218,000 in 1996 and product gross profit margin increased to 50.7% in 1997 from 49.8%. The products gross margin increase was a result of a favorable shift in product mix towards Accurun sales and overall volume increase, thereby spreading fixed costs over a larger base, and despite a lower gross profit margin in BBI Source's instrument sales. Services gross profit increased 53.5%, or $1,167,000, to $3,350,000 in 1997 from $2,183,000 in 1996 as the testing volume increased at a faster rate than laboratory headcount, thereby

causing the services gross profit margin to increase to 31.6% in 1997 from 31.0% in 1996. BBI Source's service gross profit margin was slightly higher than the Company average, which is expected to continue.

Research and development expenditures increased 64.6%, or $514,000, to $1,311,000 in 1997 from $797,000 in 1996. The increase resulted primarily from new Laboratory Instrument development activities at BBI Source, as well as increased development expenditures for Accurun(r), molecular and immunological Run Controls, and specialized molecular assays.

Selling and marketing expenses increased 48.1%, or $1,053,000, to $3,241,000 in 1997 from $2,188,000 in 1996. The increase was attributable primarily to an eleven person expansion of the TQS sales, marketing, and technical support staff and related increased trade show and travel expenses. In addition, the inclusion of BBI Source added $167,000 of expense to this

category.

General and administrative costs increased 39.2%, or $942,000, to $3,343,000 in 1997 from $2,401,000 in 1996. This increase was attributable primarily to: the addition of a Director of Human Resources and wide area network systems analyst; higher expenditures for accounting and legal professionals and investor relations activities in our first full year as a public company; increased travel associated with the BBI Source acquisition; and non-recurring moving costs of $40,000 associated with moving BBI Biotech Research Laboratories to a new facility in Gaithersburg Maryland. These increases were partially offset by a lower provision for doubtful accounts as a result of improved accounts receivable collections from patients at the Company's clinical reference testing laboratory. In addition, the inclusion of BBI Source added $442,000 of expense to this category.

Operating income increased 37.1%, or $377,000, to $1,392,000 in 1997 from $1,015,000 in 1996. This increase was primarily a result of continued strong performance in the Company's Quality Control Products business and clinic reference testing laboratory, partially offset by a loss at BBI Source of $189,000.

The Company had net interest income of $283,000 in 1997 versus net interest expense of ($213,000) in 1996 as substantially all of the Company's debt was repaid in November 1996 with a portion of the proceeds from its IPO. The Company had positive cash balances to invest for all of 1997.

Net income increased 108.9%, or $524,000, to $1,005,000 in 1997 from $481,000 in 1996. Of this increase, 43% was attributable to higher operating income, and the balance was due to the shift from net interest expense in 1996 to net interest income in 1997. Diluted earnings per share increased 50% to $0.21 for 1997 versus $0.14 in 1996. This increase was achieved even though weighted average diluted shares outstanding increased 43%. Basic earnings per share increased 35% to $0.23 for 1997 versus $0.17 in 1996.

Years Ended December 31, 1996 and 1995

Total revenue increased 26.4%, or $3,239,000, to $15,509,000 in 1996 from $12,271,000 in 1995. The increase in revenue was the result of a 27.9% increase in product revenue of $1,848,000 to $8,470,000 from $6,622,000, and a 24.6% increase in service revenue of $1,390,000 to $7,039,000 from $5,649,000 in 1995. The increase in product revenue was attributable to an increase in the volume of sales of Quality Control Products, particularly Accurun. The increase in service revenue was primarily the result of increased volume of specialty clinical laboratory testing and a favorable mix shift towards higher priced molecular testing, and the impact of two new research contracts. This was partially offset by lower volume of clinical trial services.

Gross profit increased 41.0%, or $1,862,000, to $6,400,599 for 1996 from $4,539,000 in 1995. Products gross profit increased 38.0%, or $1,160,000, to $4,217,000 in 1996 from $3,057,000 in 1995 and products gross profit margin increased to 49.8% in 1996 from 46.2%. The products gross margin increase was a result of a favorable mix shift towards Accurun sales. Services gross profit increased 47.3%, or $701,000, to $2,183,000 in 1996 from $1,481,000 in 1995 as the testing volume increased at a

faster rate than laboratory headcount increased, and thereby caused the services gross profit margin to increase to 31.0% in 1996 from 26.2% in 1995.

Research and development expenditures increased 112.1%, or $421,000, to $797,000 in 1996 from $376,000 in 1995. The increase resulted from increased costs of personnel hired in the second half of 1995 to step-up the rate of new product introductions, and increased research project expenditures. Development projects included Accurun(r), molecular and immunological Run Controls, specialized molecular assays, and expenditures related to the Company's drug discovery program.

Selling and marketing expenses increased 63.3%, or $848,000, to $2,188,000 in 1996 from $1,340,000 in 1995. The increase was attributable primarily to additional sales and marketing staff and overhead; increased advertising, promotion, trade show and travel expenses due to the commencement of the Company's "Total Quality System" (TQS) marketing campaign; and costs

associated with participation by the Company's Specialty Clinical Laboratory in the Roche Diagnostics' Amplicor(Access program in connection with Roche's launch of their new FDA approved HIV PCR test kit. The Amplicor(kit is primarily used to monitor the HIV viral load (level) in patients prior to and during drug therapy.

General and administrative costs increased 3.7%, or $85,000, to $2,401,000 in 1996 from $2,316,000 in 1995. This increase was attributable primarily to additional staffing in support of Company growth and higher reserve provisions for doubtful accounts associated with the increased volume of revenue related to testing in situations in which payment to the Company depends on collecting from the patient rather than a healthcare institution.

Operating income increased 100.0%, or $507,000, to $1,015,000 in 1996 from $508,000 in 1995. This increase was primarily a result of a very strong performance in the Company's Quality Control Products business and clinic reference testing laboratory.

Net interest expense decreased 36.6%, or $123,000, to $213,000 in 1996 from $336,000 in 1995, as the proceeds from the Company's initial public offering were used to pay down almost all debt in early November, and the remaining amount invested in short term, investment grade securities.

Net income increased 367.2%, or $378,000, to $481,000 in 1996 from $103,000 in 1995. Diluted earnings per share increased 325% to $0.14 for 1996 versus $0.03 in 1995. Weighted average diluted shares outstanding only increased 10% in 1996 over 1995 as the Company's shares issued in connection with its IPO were outstanding for only two months in 1996. Basic earnings per share increased 312% to $0.17 for 1996 versus $0.04 in 1995.

Liquidity and Capital Resources

At December 31, 1997, the Company had cash and cash equivalents of approximately $2,772,000 and working capital of $9,633,000. Trade accounts receivable increased $2,143,000 or 62.7%, primarily from the inclusion of BBI Source in the year end balance sheet for the first time, and significant growth in fourth quarter revenue in 1997. Inventory increased $1,723,000 or 41.2%, again primarily due to the inclusion of BBI Source for the first time, and the addition of 39 new products to inventory.

On October 31, 1996, the Company's Common Stock commenced trading on the NASDAQ as a result of completing the initial public offering of its common stock ("IPO"), selling 1,600,000 shares at $8.50 per share. Net proceeds received after underwriting discounts, commissions and offering costs was approximately $11,633,000. On November 5, 1996, the Company repaid substantially all of its outstanding bank debt which totaled approximately $3.9 million.

The Company has financed its operations to date through cash flow from operations, borrowings from banks and sales of equity. The Company expects its cash flow and cash position to meet existing operational needs, although its revolving line of credit will be available as needed for working capital.

Net cash provided by operations for 1997 was $727,000 as compared to $1,460,000 in 1996. As discussed above, this decrease in cash flow was primarily attributable to carrying additional accounts receivable and inventory as of year end. This was partially offset by an increase in deferred revenue from a payment of $331,000 under a research contract for future clinical trial services, and a net increase in accounts payable and accrued expenses of $696,000. Also benefiting net cash from operations for 1997 was a $290,000 reduction in current federal tax liability as a result of non-qualified stock option exercises. Cash flow used in operations in 1995 was $29,000 as working capital needs due to sales growth exceeded cash generated from net income adjusted by non cash expenses.

Cash used in investing activities for 1997, 1996 and 1995 amounted to $5,396,000, $1,412,000, and $1,320,000, respectively. In addition to normal capital expenditures, four items accounted for most of the 1997 investing activities. First, the Company exercised its option to purchase an additional 165,000 shares of BioSeq, Inc. stock at an aggregate cost of $750,000, thereby

increasing its ownership of BioSeq to 19.9%. Second, in May 1997, the Company's BBI Biotech subsidiary signed a ten year lease for new laboratory space in Gaithersburg, Maryland and spent $566,000 on leasehold improvements for new laboratory space for its contract research and product development activities. Third, the expansion and renovation of its Diagnostic Products manufacturing facility in West Bridgewater, Massachusetts commenced construction and approximately $920,000 was expended as the project is now over two-thirds complete. Finally, effective on July 1, 1997, the Company completed the acquisition of the business and net assets of Source Scientific, Inc. at a purchase price of $1,994,000 including acquisition costs. The Company has accounted for the acquisition as an asset purchase, and is amortizing goodwill of approximately $2.2 million over 15 years. See Note 2 to the Company's Notes to Consolidated Financial Statements in Item 8 hereunder. The cash used in investing activities in 1996 included the initial investment in BioSeq, Inc. of $732,500, while 1995 included the purchase of the Company's West Bridgewater facility for $806,000.

During 1997, net cash generated from financing activities included $300,000 from the exercise of warrants, and $182,000 from exercising stock options. Also in 1997, $1,124,000 was used to pay down debt acquired in connection with the Source acquisition. In 1996, net cash generated from common stock issued, including the IPO, approximated $12,600,000. This was used to pay down net debt of $4,577,000. Net cash provided by borrowings for 1995 amounted to $1,240,000, and net proceeds from the sale of Common Stock for the same period was approximately $176,000. The proceeds of such debt were used for working capital, to acquire the West Bridgewater property and to purchase capital equipment.

In 1997, 1996 and 1995 capital expenditures amounted to $2,613,000, $669,000, and $1,316,000, respectively. The 1997 expenditures included both the Massachusetts and Maryland facility improvement, and the 1995 expenditures related to the purchase of the West Bridgewater facility, all as discussed above.

On April 26, 1996 the Company entered into a new five year distribution agreement with Kyowa Medex, Co., Ltd., a foreign distributor, extending a six year old relationship. Simultaneously, Kyowa purchased 117,647 shares of the Company's Common Stock at a price of $8.50 per share. Under the distribution agreement, Kyowa has been granted an exclusive right to sell and distribute the Company's products in Japan and to continue to purchase product from the Company at a discount. In return, Kyowa is obligated to achieve certain minimum sales levels, provide market, sales and regulatory information, and has agreed not to compete with the Company.

On March 9, 1998, the Company announced plans to modify a previously announced 3-year contract with ABX Hematology, Inc. ("ABX") and its parent company, ABX Hematologie, SA (France). Under the contract, the Company provided technical, customer and field services for instruments sold by ABX in the United States. Under the modified agreement, individual customer service contracts will be assigned to ABX and ABX will assume responsibility for its United States instruments. The Company will provide certain consulting services through March 1999 to assist ABX in establishing a sales, customer service, technical support, and field service operation in the United States for its hematology

instrument and reagent business. In addition, the Company has agreed to allow ABX to occupy space at its California facility during the period of the agreement. The Company's personnel associated with this contract, included the nationwide field service organization and hotline technical support, will be offered employment by ABX.

The Company is accounting for its investment in BioSeq on the cost-basis in accordance with the provisions of APB 18 since its cumulative investment is less than 20% of the equity of BioSeq and the Company does not exert significant influence or control. BioSeq needs to obtain additional financing in 1998 to continue operations and there can be no assurances that any such financing will be available upon acceptable terms. Due to the uncertainty of technology based development stage enterprises, the Company performs a periodic analysis of the investment to determine whether the carrying value of its investment in BioSeq has been other than temporarily impaired. In performing the analysis of its investment in BioSeq for the

current year, management considered BioSeq's positive factors including its technology, patent positions, business prospects, and the possibility of raising capital and achieving financial success; as well as its negative cash flow and net worth, and limited cash and other resources, and failure to date to raise significant capital independent of the Company. Management has concluded that its investment has not been other than temporarily impaired, if at all. If it is subsequently determined to be impaired, the Company will adjust the carrying value of its investment by taking a charge to earnings which could amount to the full value of its $1,482,500 investment as of December 31, 1997. See also Note 14 relating to the Company's $600,000 purchase of certain technology rights from BioSeq.

The Company anticipates capital expenditures to begin slowing down in 1998 as most of the Maryland and approximately two-thirds of the Massachusetts projects have been completed. The Company believes that existing cash balances, the borrowing capacity available under the revolving line of credit, and cash generated from operations are sufficient to fund operations and anticipated capital expenditures for the foreseeable future. Except for purchase orders in connection with the manufacturing expansion, there were no material financial commitments for capital expenditures as of December 31, 1997.

Year 2000 Computer Systems Compliance

Concerns have been widely expressed regarding the inability of certain computer programs to process date information beyond year 1999. These concerns focus on the impact of the Year 2000 problem on business operations and the potential costs associated with identifying and addressing the problem. The Company is in the process of evaluating and taking steps to deal with the potential impact of this problem in areas under its control, including its products and sources of supply, as well as its operations management, administration and financial systems.

Based on its review to date, the Company believes that its products are "Year 2000 compliant." The Company plans to correct or replace its administrative and business systems in time to avoid material problems. The Company has confirmed with existing software vendors that Year 2000 compliant versions either exist or will be available to upgrade or replace its operations management, administrative and financial systems. Where it believes that a particular supplier's situation poses unacceptable risks, the Company plans to identify an alternative source.

Based upon its review, the Company does not believe that the Year 2000 problem will have a material adverse affect on the Company. However, there can be no assurances that failure to comply with Year 2000 by parties outside its control will not have a material adverse affect on the Company.

Recent Accounting Pronouncements

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) is effective for fiscal years beginning after December 15, 1997. SFAS 130 requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS 130 in fiscal year ended December 31, 1998. Adoption of this statement is not expected to have an impact on the Company's consolidated financial position and results of operations.

Segment Reporting

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) is effective for financial statements for periods beginning after December 15, 1997. This statement will change the way companies report annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. The Company will adopt SFAS 131 in the fiscal year ended December 31, 1998. Adoption of this statement is not expected to have an impact on the Company's consolidated

financial position and results of operations.

Forward - Looking Information

The Annual Report on Form 10-K contains forward-looking statements concerning the Company's financial performance and business operations. The Company wishes to caution readers of this Annual Report on Form 10-K that actual results might differ materially from those projected in the forward-looking statements contained herein.

Factors which might cause actual results to differ materially from those projected in the forward-looking statements contained herein include the following: inability of the Company to develop the end user market for quality control products; inability of the Company to integrate the business of Source Scientific, Inc. into the Company's business; inability of the Company to grow the sales of Source Scientific, Inc. to the extent anticipated; failure to execute a definitive agreement with ABX Hematologie for the transfer to them of certain service activities in connection with the letter of intent to modify the existing contract; a material adverse change in the business, financial condition or prospects of BioSeq, Inc., an early stage biotechnology company in which the Company has made a significant investment, including inability to develop its technology to the level of commercial utilization; inability of the Company to obtain an adequate supply of the unique and rare specimens of plasma and serum necessary for certain of its products; significant reductions in purchases by any of the Company's major customers; and the potential insufficiency of Company resources, including human resources, plant and equipment and management systems, to accommodate any future growth. Certain of these and other factors which might cause actual results to differ materially from those projected are more fully set forth under the caption "Risk Factors" in the Company's Registration Statement on Form S-1 (SEC File No. 333-10759).

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	December 31,	
	1997	1996
ASSETS		
CURRENT ASSETS:		
<S>	<C>	<C>
Cash and cash equivalents	$2,772,360	$8,082,642
Accounts receivable, less allowances of $446,517 in 1997 and $352,058 in 1996	5,558,710	3,415,994
Inventories	5,902,821	4,180,334
Prepaid expense and other	288,481	239,950
Deferred income taxes	328,562	283,200
Total current assets	14,850,934	16,202,120
Property and equipment, net	4,980,164	2,699,158
OTHER ASSETS:		
Long term investment	1,482,500	732,500
Goodwill and other intangibles, net	2,212,220	95,302
Notes receivable and other	124,178	69,234
	3,818,898	897,036
TOTAL ASSETS	$23,649,996	$19,798,314

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Current maturities of long term debt	$ 14,878	$ 12,820
Accounts payable	2,218,685	991,839
Accrued compensation	1,103,837	840,666
Accrued income taxes	132,802	427,140
Other accrued expenses	498,247	264,262
Deferred revenue	1,249,024	829,477
Total current liabilities	5,217,473	3,366,204
LONG-TERM LIABILITIES:		
Deferred rent and other liabilities	215,937	40,948
Deferred income taxes	149,333	101,580
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common stock, $.01 par value; authorized 20,000,000 shares in 1997 and 1996; issued and outstanding 4,622,566 in 1997 and 4,378,157 in 1996	46,226	43,782
Additional paid-in capital	16,029,049	15,258,656
Retained earnings	1,991,978	987,144
Total stockholders' equity	18,067,253	16,289,582
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$23,649,996	$19,798,314

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1997	1996	1995
<S>	<C>	<C>	<C>
REVENUE:			
Products	$11,711,026	$ 8,469,890	$ 6,621,631
Services	10,588,311	7,039,406	5,649,099
Total revenue	22,299,337	15,509,296	12,270,730
COSTS AND EXPENSES:			
Cost of product sales	5,773,417	4,252,068	3,564,241
Cost of services	7,238,527	4,856,630	4,167,625
Research and development	1,311,190	796,805	375,712
Selling and marketing	3,241,422	2,188,152	1,339,792
General and administrative	3,342,829	2,400,681	2,315,814
Total operating costs and expenses	20,907,385	14,494,336	11,763,184
Income from operations	1,391,952	1,014,960	507,546
Interest income (expense), net	282,771	(212,969)	(335,899)
Income before income taxes	1,674,723	801,991	171,647
Provision for income taxes	(669,889)	(320,771)	(68,657)

Net income	$ 1,004,834	$ 481,220	$ 102,990
Net income per share, basic	$ 0.23	$ 0.17	$ 0.04
Net income per share, diluted	$ 0.21	$ 0.14	$ 0.03
Number of shares used to calculate net income per share			
Basic	4,437,801	2,915,522	2,569,641
Diluted	4,780,070	3,340,236	3,040,188

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

<TABLE>
<CAPTION>

	Common Stock		Additional			Total
	Shares	$.01 Par Value	Paid-In Capital	Retained Earnings	Treasury Stock	Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE, December 31, 1994	2,578,865	25,789	2,612,500	402,934	-	3,041,223
Issuance of common stock	8,535	85	58,160			58,245
Stock options and warrants exercised	47,200	472	117,068			117,540
Conversion of note payable	5,817	58	9,542			9,600
Treasury stock purchased - 80,000 shares					(144,000)	(144,000
Tax benefit of stock options exercised			1,350			1,350
Net income				102,990		102,990
BALANCE, December 31, 1995	2,640,417	26,404	2,798,620	505,924	(144,000)	3,186,948
Issuance of common stock, net of issuance costs	1,637,647	16,377	12,371,469		144,000	12,531,846
Stock options and warrants exercised	85,760	858	67,210			68,068
Conversion of note payable	14,333	143	21,357			21,500
Net income				481,220		481,220
BALANCE, December 31, 1996	4,378,157	43,782	15,258,656	987,144	-	16,289,582
Stock options and warrants exercised	244,409	2,444	480,032			482,476
Tax benefit of stock options exercised			290,361			290,361
Net income				1,004,834		1,004,834
BALANCE, December 31, 1997	4,622,566	$ 46,226	$16,029,049	$1,991,978	-	$18,067,253

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years Ended December 31,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
<S>	<C>	<C>	<C>
Net income	$1,004,834	$ 481,220	$ 102,990
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	858,434	600,495	441,356
Provision for doubtful accounts	174,925	247,080	181,084

Deferred rent	(71,381)	(87,152)	(45,792)
Deferred income taxes	2,391	(155,495)	(61,765)
Tax benefit of stock options exercised	290,361	-	1,350
Changes in operating assets and liabilities:			
Accounts receivable	(1,907,413)	(587,204)	(997,112)
Note receivable and other assets	(13,930)	14,188	(61,343)
Inventories	(640,301)	(503,483)	(67,335)
Prepaid expenses	2,546	14,249	(98,082)
Accounts payable	797,690	246,623	(42,190)
Accrued compensation and other expenses	(102,199)	883,063	94,126
Deferred revenue	330,855	306,076	523,401
Net cash provided by (used in) operating activities	726,812	1,459,660	(29,312)
CASH FLOWS FOR INVESTING ACTIVITIES:			
Payments for additions to property and equipment	(2,612,697)	(669,154)	(1,316,217)
Purchase of intangible assets	(39,625)	(9,999)	(4,000)
Purchase of long term investment	(750,000)	(732,500)	-
Net assets of acquisition, net of cash acquired	(1,993,722)	-	-
Net cash used in investing activities	(5,396,044)	(1,411,653)	(1,320,217)
CASH FLOWS FOR FINANCING ACTIVITIES:			
Proceeds from long term debt	-	226,300	1,517,867
Repayments of long-term debt	(1,123,526)	(4,803,042)	(277,789)
Proceeds of common stock issued	482,476	13,581,315	175,785
Offering costs associated with common stock issued	-	(981,401)	-
Purchase of treasury stock	-	-	(144,000)
Net cash (used in) provided by financing activities	(641,050)	8,023,172	1,271,863
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS:	(5,310,282)	8,071,179	(77,666)
Cash and cash equivalents, beginning of year	8,082,642	11,463	89,129
Cash and cash equivalents, end of year	$2,772,360	$8,082,642	$ 11,463
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:			
Conversion of note payable to common stock	-	$ 21,500	$ 9,600
Noncash exercise of warrants to stockholder	-	$ 180,650	-
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 662,304	$ 85,460	$ 168,994
Interest paid	$ 5,731	$ 300,587	$ 331,495

</TABLE>

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

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Business and Significant Accounting Policies

Boston Biomedica, Inc. ("BBI") and Subsidiaries (together, the "Company") provide infectious disease diagnostic products, clinical instrumentation, contract research and specialty infectious disease testing services to the in-vitro diagnostic industry, government agencies, blood banks, hospitals and other health care providers worldwide. The Company is subject to risks common to companies in the Biotechnology industry, including but not limited to, development by the Company or its competitors of new technological innovations, dependence on key personnel, protection of proprietary technology, and compliance with FDA government regulations.

Significant accounting policies followed in the preparation of these consolidated financial statements are as follows:

(i) Principles of Consolidation

The consolidated financial statements include the accounts of BBI and its wholly-owned subsidiaries, BBI Biotech Research Laboratories, Inc. ("BBI Biotech"), BBI Clinical Laboratories, Inc. ("BBICL"), and BBI Source Scientific, Inc. ("BBI Source"). All significant intercompany accounts and transactions have been eliminated in the consolidation. Certain amounts included in the prior year's financial statements may have been reclassified to conform to the current presentation.

(ii) Use of Estimates

To prepare the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, the Company records reserves for estimates regarding the collectability of accounts receivable as well as the net realizable value of its inventory. Actual results could differ from the estimates and assumptions used by management.

(iii) Revenue Recognition

Product revenues are recognized as sales upon shipment of the products or, for specific orders at the request of the customer, on a bill and hold basis after completion of manufacture. All bill and hold transactions meet specified revenue recognition criteria which include normal billing, credit and payment terms, and transfer to the customers of all risks and rewards of ownership. Accounts receivable as of December 31, 1997 and 1996 include bill and hold receivables of $31,000 and $23,000, respectively.

The Company periodically enters into barter transactions whereby the Company exchanges inventory for testing services. Revenue on these transactions are recognized when both the products have been shipped and the testing services have been completed and are recorded at the estimated fair market value of the inventory based upon standard Company prices. The revenue recognized on these transactions for the years ended December 31, 1997, 1996 and 1995 was $261,000, $244,000, and $213,000, respectively.

Services are recognized as revenue upon completion of tests for specialty laboratory services. Revenue from service contracts and research and development contracts for the Company's laboratory instrumentation business is recognized as the service and research and development activities are performed under the terms of the contracts.

Revenue under long-term contracts, including funded research and development contracts, is recorded under the percentage of completion method, wherein costs plus profit is recorded as service revenue and billed monthly as the work is performed. Certain customers make advance payments that are deferred until revenue recognition is appropriate. Unbilled amounts for fee retainage are included in accounts receivable at December 31, 1997 and 1996, and are immaterial. When the current contract estimates indicate a loss, provision is made for the total anticipated loss. The Company does not believe there are any material collectability issues associated with these receivables.

Total revenue related to funded research and development contracts was approximately $1,737,000, $1,126,000, and $728,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Total contract costs associated with these agreements were approximately $1,438,000, $975,000 and $575,000 for the years ended December 1997, 1996 and 1995, respectively.

(1) Business and Significant Accounting Policies -- (Continued)

(iv) Cash and cash equivalents

The Company's policy is to invest available cash in short-term, investment grade, interest bearing obligations, including money market funds, municipal notes, and bank and corporate debt instruments. Securities purchased with initial maturities of three months or less, are valued at cost plus accrued interest, which approximates fair market value, and classified as cash equivalents. At December 31, 1997 the Company's cash equivalents consisted of $2,702,280 invested in a money market fund. At December 31, 1996 the Company's cash equivalents consisted of $6,001,259 invested in a money market fund and a banker's acceptance of $1,991,522.

(v) Research and Development Costs

Research and development costs are expensed as incurred.

(vi) Inventories

Inventories are stated at the lower of average cost or net realizable value and include material, labor and manufacturing overhead.

(vii) Property and Equipment

Property and equipment are stated at cost. For financial reporting purposes, depreciation is recognized using accelerated and straight-line methods, allocating the cost of the assets over their estimated useful lives ranging from five years to ten years for certain manufacturing and laboratory equipment, from three to five years for management information systems and office equipment, three years for automobiles and fifteen years for the building. Upon retirement or sale, the cost and related accumulated depreciation of the asset are removed from the books. Any resulting gain or loss is credited or charged to income.

(viii) Goodwill and Intangibles

The Company has classified as goodwill the cost in excess of fair value of the assets of business acquired. Goodwill is being amortized on a straight line basis over ten to fifteen years. Other intangibles primarily consist of patents, licenses, and intellectual property rights and are amortized over four to ten years.

(ix) Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred taxes arise from temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided for net deferred tax assets if, based on the weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Tax credits are recognized when realized using the flow through method of accounting.

(x) Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk are principally cash and cash equivalents, and accounts receivable. The Company places its cash in federally chartered banks, each of which is insured up to $100,000 by the Federal Deposit Insurance Corporation. The Company limits credit risk in cash equivalents by investing only in short term, investment grade securities including money market funds restricted to such securities. Concentration of credit risk with respect to accounts receivable is limited to certain customers to whom the Company makes substantial sales (see also Note 6). The Company does not require collateral from its customers. To reduce risk, the Company routinely assesses the financial strength of its customers and, as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

(xi) Deferred Revenue

Deferred revenue consists of payments received from customers in advance of services performed.

(1) Business and Significant Accounting Policies -- (Continued)

(xii) Recent Accounting Standards

Comprehensive Income

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130) is effective for fiscal years beginning after December 15, 1997. SFAS 130 requires that changes in comprehensive income be shown in a financial statement that is displayed with the same prominence as other financial statements. The Company will adopt SFAS 130 in fiscal year ended December 31, 1998. Adoption of this statement is not expected to have an impact on the Company's consolidated financial position and results of operations.

Segment Reporting

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" (SFAS 131) is effective for financial statements for periods beginning after December 15, 1997. This statement will change the way companies report annual financial statements and requires them to report selected segment information in their quarterly reports issued to shareholders. It also requires entity wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues, and its major customers. The Company will adopt SFAS 131 in the fiscal year ended December 31, 1998. Adoption of this statement is not expected to have an impact on the Company's consolidated financial position and results of operations.

(2) Purchase of the Business and Net Assets of Source Scientific, Inc.

In July 1997, the Company, through its wholly owned subsidiary BBI-Source Scientific, Inc., completed the acquisition of all of the assets, business, and selected liabilities of Source Scientific, Inc. ("Source"). In addition to the cash payment of $1,894,000 to Source, the total purchase price was $1,994,000 including consulting, legal, accounting and other acquisition costs, net of cash acquired. The acquisition is treated as an asset purchase as of July 2, 1997 and the results of operations have been included since that date. The purchase price exceeded the fair market value of net assets acquired by approximately $2,202,000, which is recognized as goodwill and is being amortized on a straight line basis over fifteen years.

The following unaudited pro forma information combines the consolidated results of operations of the Company and Source as if the asset purchase had occurred at the beginning of 1996, after giving effect to certain adjustments, including amortization of intangible assets, increased interest expense on the acquisition debt, and related income tax effects. The unaudited pro forma information is shown for comparative purposes only and does not reflect the synergies expected to result from the integration of Source's business into the Company's business.

	Years Ended December 31,	
Unaudited	1997	1996
Revenue	$24,051,796	$20,489,296
Operating income (loss)	688,808	539,960
Net income (loss)	371,285	239,976
Pro forma earnings per share, basic	0.08	0.08
Pro forma earnings per share, diluted	0.08	0.07

(3) Inventories

The Company purchases human plasma and serum from various private and commercial blood banks. Upon receipt, such purchases generally undergo

comprehensive testing, and associated costs are included in the value of raw materials. Most plasma is manufactured into Basematrix and other diagnostic components to customer specifications. Plasma and serum with the desired antibodies or antigens are sold or manufactured into Quality Control Panels, Accurun(r) Run Controls, and reagents ("Finished Goods"). Panels and reagents are unique to specific donors and/or collection periods, and require substantial time to characterize and manufacture due to stringent technical specifications. Panels play an important role in diagnostic test kit development, licensure and quality control. Panels are manufactured in quantities sufficient to meet expected user demand which may exceed one year. Inventory balances at December 31, 1997 and 1996 consist of the following:

	1997	1996
Raw materials	$2,033,040	$1,359,569
Work-in-process	1,190,567	697,749
Finished goods	2,679,214	2,123,016
	$5,902,821	$4,180,334

(4) Property and Equipment

Property and equipment at December 31, 1997 and 1996 consist of the following:

	1997	1996
Laboratory and manufacturing equipment	$2,240,660	$1,751,737
Management information systems	1,693,939	1,247,190
Office equipment	686,608	394,957
Automobiles	189,775	196,663
Leasehold improvements	687,714	122,419
Land, building and improvements	2,160,932	956,386
	7,659,628	4,669,352
Less accumulated depreciation	2,679,464	1,970,194
Net book value	$4,980,164	$2,699,158

Depreciation expense for the years ended December 31, 1997, 1996 and 1995 was approximately $731,000, $585,500, and $425,700 respectively. Included in 1997 land, building and improvements is approximately $920,000 of construction in progress.

(5) Long Term Investment

In October 1996, the Company entered into a License Agreement, Purchase Agreement, Stockholders' Agreement and Warrant Agreement with BioSeq, Inc. ("BioSeq") a privately held, technology based development stage company. The Company agreed to purchase convertible preferred stock equivalent to approximately 19% of the capital stock of BioSeq for an aggregate of $1,482,500 in three installments. Of the $1,482,500, $732,500 was invested in 1996.

In April 1997, the Company exercised its option to purchase an additional 165,000 shares of BioSeq at an aggregate cost of $750,000, thereby increasing its ownership to 19%. The investment is carried at cost of $1,482,500 and classified as a long term investment. Under the operative documents, the Company has price anti-dilution protection, pre-emptive rights and the right to board representation. In addition, the Company was granted warrants to acquire additional shares of common stock of BioSeq for additional consideration under certain conditions, provided that this right is not exercisable to the extent it would cause the Company's ownership

(5) Long Term Investment (Continued)

to equal or exceed 20%. The Company is accounting for its investment in BioSeq on the cost-basis in accordance with the provisions of APB 18 since its cumulative investment is less than 20% of the equity of BioSeq and the Company does not exert significant influence or control. BioSeq needs to obtain additional financing in 1998 to continue operations and there can be no assurances that any such financing will be available upon acceptable terms. Due to the uncertainty of technology based development stage enterprises, the Company performs a periodic analysis of the investment to determine whether the carrying value of its investment in BioSeq has been other than temporarily impaired. In performing the analysis of its investment in BioSeq for the current year, management considered BioSeq's positive factors including its technology, patent positions, business prospects, and the possibility of raising capital and achieving financial success; as well as its negative cash flow and net worth, and limited cash and other resources, and failure to date to raise significant capital independent of the Company. Management has concluded that its investment has not been other than temporarily impaired, if at all. If it is subsequently determined to be impaired, the Company will adjust the carrying value of its investment by taking a charge to earnings which could amount to the full value of its $1,482,500 investment as of December 31, 1997. See also Note 14 relating to the Company's $600,000 purchase of certain technology rights from BioSeq.

In accordance with the agreement, the Company was granted a worldwide right ("the License") to use the BioSeq technology relating to sequencing and analysis services. The License will be exclusive until BioSeq commences selling on a commercial basis the equipment used in the DNA sequencing and analysis process, at which time the License will become non-exclusive. The License provides that the Company will pay BioSeq market royalties as a percentage of net revenues arising out of the services performed by the Company with the licensed technology. The Company will account for the royalty as a cost of revenue as the revenues are earned. (See also Note 14.)

(6) Revenue from Significant Customers and Export Sales

The Company performs contract research and certain other services under contracts, subcontracts and grants from United States Government Agencies, primarily the National Institutes of Health ("NIH"). Revenue from such contracts, subcontracts and grants was approximately $2,638,000 in 1997, $1,920,000 in 1996, and $1,628,000 in 1995.

Export sales by geographic area are approximately as follows:

	1997	1996	1995
Europe	$3,150,000	$2,844,000	$2,257,000
Pacific Rim	1,310,000	948,000	642,000
Others	694,000	534,000	531,000
Total	$5,154,000	$4,326,000	$3,430,000

(7) Deferred Rent and Other Liabilities

One of the facility leases includes scheduled base rent increases over the term of the lease. The amount of base rent payments is being charged to expense on the straight-line method over the term of the lease. As of December 31, 1997 and 1996, the Company has recorded a liability of $189,867 and $53,900, respectively, to reflect the excess of rent expense over cash payments since inception of the lease. In addition to base rent, the Company pays a monthly allocation of the operating expenses and real estate taxes for the above facility.

The Company's outstanding debt consists of an installment note payable with an interest rate of 9.75%, due August 2001. The note is collateralized by office furniture and laboratory equipment. The amount outstanding on December 31, 1997 and 1996 was $40,948 and $53,768, respectively. The current amounts of such debt at December 31, 1997 and 1996 was $14,878 and $12,820, respectively.

During 1996, convertible debt in the amount of $21,500 was converted into 14,333 shares of common stock at a price of $1.50 per share.

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(7) Deferred Rent and Other Liabilities (Continued)

Effective March 28, 1997, the Company entered into a $7.5 million uncollateralized revolving line of credit (the "Line") with its bank. The Line matures on June 30, 1999; bears interest at the Company's option based on either base rate, LIBOR plus 1.75%, or overnight money market rate plus 1.75%; and carries a facility fee of .25% per annum, payable quarterly. The Line contains covenants regarding the Company's ratio of total liabilities-to-equity, minimum tangible net worth, and minimum debt service coverage ratio. The Line further provides for restrictions on the payment of dividends, and limitations on additional borrowings. The Company did not draw upon the Line during 1997.

(8) Income Taxes

The Company's effective tax rate does not significantly differ from the federal and state income tax statutory rates. The components of the provision for income taxes are as follows:

	1997	1996	1995
Current expense: federal and state	$667,498	$476,206	$130,422
Deferred expense (benefit): federal and state	2,391	(155,495)	(61,765)
Total	$669,889	$320,711	$68,657

Significant items making up deferred tax liabilities and deferred tax assets are as follows:

	1997	1996
Current deferred taxes:		
Inventory	$ 72,249	$ 87,158
Accounts receivable allowance	153,469	115,548
Other accruals	102,844	80,494
Total current deferred tax assets	328,562	283,200
Long term deferred taxes:		
Accelerated tax depreciation	(217,029)	(176,015)
Goodwill and intangibles	15,176	13,551
State net operating loss carryforwards	52,520	60,884
Total long term deferred tax liabilities, net	(149,333)	(101,580)
Total net deferred tax assets	$179,229	$181,620

As of December 31, 1997, the state net operating loss carryforwards expire at various dates beginning in 1999 through 2007.

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(9) Commitments and Contingencies

The Company leases certain office space, laboratory, research and manufacturing facilities under operating leases with various terms through October 2007. All of the real estate leases include renewal options at either market or increasing levels of rent.

Rent expense for the years ended December 31, 1997, 1996 and 1995 was

$506,300, $365,700, and $477,600, respectively. At December 31, 1996, the remaining fixed lease commitment was as follows:

Year Ended	Amount
1998	$ 938,970
1999	969,715
2000	971,993
2001	915,609
2002	578,326
2003 and thereafter	2,358,410
	$6,733,023

Commencing in February 1995, the Company committed under a sponsored research agreement with a university to fund a research scientist at a cost of $13,125 per quarter for three years which costs are charged to research and development expense. In return, the Company has exclusive rights to any anti-HIV compounds or derivatives developed in the course of this research, provided the Company obtains certain regulatory approvals from the FDA.

(10) Retirement Plan

In January 1993, the Company adopted a retirement savings plan for its employees, which has been qualified under Section 401(k) of the Internal Revenue Code. Eligible employees are permitted to contribute to the plan through payroll deductions within statutory limitations and subject to any limitations included in the plan. Company contributions are made at the discretion of management. To date, no such contributions have been made. During 1997, the Company recognized administrative expense of approximately $23,000 in connection with the plan.

(11) Stockholders' Equity

Common Stock

On October 31, 1996, the Company commenced trading on the NASDAQ National Market as a result of the initial public offering of its common stock ("IPO"), raising net proceeds of $11,633,000 from the sale of 1,600,000 shares at $8.50 per share.

On April 26, 1996, the Company entered into a Stock Purchase Agreement and Exclusive Distributor Agreement for five years with a foreign distributor. Pursuant to the Stock Purchase Agreement, the Company issued 117,647 shares of redeemable common stock at a price per share of $8.50, for which it received net proceeds of $898,503. Issuance costs were $101,497. Completion of the IPO terminated the redemption feature. The distributor was restricted from selling these securities for a one-year period after completion of the IPO. The Company issued 80,000 shares of Treasury Stock in connection with this transaction.

On August 8, 1996 the Board of Directors approved a 1-for-2 reverse stock split and an increase in authorized common shares to 20,000,000, and authorized 1,000,000 shares of preferred stock (par value $.01), which were approved by the stockholders on September 10, 1996. The stock split has been retroactively reflected in the accompanying financial statements and notes for all periods presented.

(11) Stockholders' Equity-(Continued)

Options and Warrants

The Company has a nonqualified option plan and an incentive stock option plan both of which are administered by a committee of the Board of Directors. In general, the option price shall not be less than the fair market value at the time the option is granted. Generally, options become exercisable at the rate of 25% at the end of each of the four years following the anniversary of the grant. Options issued expire ten years from the date of

grant, or 30 days from the date of termination of affiliation.

At December 31, 1997, 775,806 shares have been reserved for non-qualified stock options, of which 92,250 are available for future grants. At December 31, 1997, 778,925 shares have been reserved for incentive stock options, of which 348,587 are available for future grants.

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). Pro forma information regarding net income and earnings per share is required by SFAS 123 and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997. The minimum value option pricing model was used for all grants during 1996 and 1995 as they were granted prior to the Company's IPO.

	1997	1996	1995
Risk-free interest rate	5.72%	6.18%	5.33%
Volatility factor	.55	.001	.001
Weighted average expected life	5 years	5 years	5 years
Expected dividend yield	0	0	0

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net income and pro forma net income per share is as follows:

	1997	1996	1995
Net income-as reported	$1,004,834	$481,220	$102,990
Net income-pro forma	851,408	424,921	80,196
Net income per share-as reported, basic	.23	.17	.04
Net income per share-as reported, diluted	.21	.14	.03
Net income per share-pro forma, basic	.19	.14	.03
Net income per share-pro forma, diluted	.17	.13	.03

(11) Stockholders' Equity-(Continued)

Because SFAS 123 provides for pro forma expense for options granted beginning in 1995, the pro forma expense will likely increase in future years as new option grants become subject to the pricing model. The average fair value of options granted during 1997, 1996 and 1995 is estimated as $4.44, $1.86 and $1.40, respectively.

In 1991 and 1993, the Company issued warrants in connection with certain debt financings. During 1997 all of those warrants were exercised.

The Company has reserved shares of its authorized but unissued common stock for the following:

<TABLE>
<CAPTION>

	Stock Options		Warrants			
		Weighted Average price		Weighted Average price	Total	
	Shares	per share	Shares	per share	Shares	Exercisable
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance outstanding, December 31, 1994	780,950	2.12	301,538	2.73	1,082,488	827,576
Granted	73,187	6.00	-	-	73,187	
Exercised	(6,000)	1.88	(41,200)	2.58	(47,200)	
Expired	(47,850)	2.64	-	-	(47,850)	
Balance outstanding, December 31, 1995	800,287	2.45	260,338	2.85	1,060,625	879,038
Granted	140,600	7.27	-	-	140,600	
Exercised	(1,500)	4.50	(84,260)	2.88	(85,760)	
Expired	(21,500)	6.05	(56,078)	3.54	(77,578)	
Balance outstanding, December 31, 1996	917,887	3.10	120,000	2.50	1,037,887	839,272
Granted	263,050	7.42	-	-	263,050	
Exercised	(124,409)	1.44	(120,000)	2.50	(244,409)	
Expired	(30,435)	7.36	-	-	(30,435)	
Balance outstanding, December 31, 1997	1,026,093	4.27	-	-	1,026,093	672,231

</TABLE>

The following table summarizes information concerning options outstanding and exercisable as of December 31, 1997:

<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
	Weighted Average Remaining	Weighted Average		Weighted Average	
Range of Exercise Prices	Life	Number of Options	Exercise Price	Number of Options	Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
$0.25 - $1.50	2.40	188,834	1.0975	188,834	1.0975
$1.65 - $3.00	4.60	342,767	2.3869	342,767	2.3869
$4.50 - $6.63	8.10	259,917	5.9231	104,798	5.0106
$7.00 - $8.50	8.60	234,575	7.7556	35,832	7.3645
		1,026,093		672,231	

</TABLE>

(12) Computation of Net Income per Share

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share". SFAS 128 establishes a different method of computing net income per share than is currently required under the provisions of Accounting Principles Board opinion No. 15. The following illustrates the computation of basic and diluted net income per share.

Year Ended December 31,		
1997	1996	1995

Shares, basic	4,437,801	2,915,522	2,569,641
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price	342,269	424,714	470,547
Shares, diluted	4,780,070	3,340,236	3,040,188
Net income, basic and diluted	$1,004,834	$ 481,220	$102,990
Net income per share-basic	0.23	0.17	0.04
Net income per share-diluted	0.21	0.14	0.03

(13) Selected Quarterly Financial Data (Unaudited)

Unaudited (Amounts in thousands, except for per share data)

1997	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total revenue	$4,209	$4,649	$6,140	$7,301
Gross profit	1,678	1,921	2,541	3,148
Net income	148	176	246	435
Net income per share, basic	0.03	0.04	0.06	0.10
Net income per share, diluted	0.03	0.04	0.05	0.09

1996	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
Total revenue	$3,084	$3,844	$4,015	$4,566
Gross profit	1,051	1,621	1,752	1,976
Net (loss) income	(97)	179	163	236
Net (loss) income per share, basic	(0.04)	0.07	0.06	0.06
Net (loss) income per share, diluted	(0.04)	0.06	0.05	0.06

(14) Subsequent Event

On March 20, 1998 the Company completed a license agreement with BioSeq, Inc., a development stage biotech company of which BBI owns 19% (see also Note 5). The license agreement provides the Company the sole and exclusive worldwide right to use BioSeq technical information, licensed processes and improvements to develop, manufacture, market and sell or sublicense products or services in the field of human in vitro immunodiagnostics. The Company paid an initial license fee in the amount of $600,000, to be capitalized with intangible assets. In accordance with the agreement, the Company will pay BioSeq an annual royalty based on net sales to customers and sublicensees. The agreement is effective March 20, 1998 and ends on the date that the last patent expires, which is approximately 16 years.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
BOSTON BIOMEDICA, INC.:

We have audited the accompanying consolidated balance sheets of Boston Biomedica, Inc. and Subsidiaries as of December 31, 1997 and 1996 and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boston Biomedica, Inc. and Subsidiaries as of December 31, 1997 and 1996 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
February 24, 1998 except as to
the information in Note 14, for
which the date is March 20, 1998

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information called for by Item 10 is incorporated by reference to the information under Part I, Item 1 - Business under the heading "Executive Officers of the Registrant" at page 14 of this Report, and to the information in the Registrant's definitive Proxy Statement which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Executive Compensation," which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 12 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Security Ownership of Directors, Officers and Certain Beneficial Owners," which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information called for by Item 13 is incorporated by reference to the information in the Registrant's definitive Proxy Statement under the heading "Certain Relationships and Related Transactions," which is expected to be filed by the Registrant within 120 days after the close of its fiscal year.

PART IV

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

(a) 1. Index to Financial Statements:

All supplemental schedules other than as set forth above are omitted as inapplicable or because the required information is included in the Consolidated Financial Statements or the Notes to Consolidated Financial Statements.

(a)3. Exhibits:

Exhibit No.

3.1 Amended and Restated Articles of Organization of the Company**

3.2 Amended and Restated Bylaws of the Company**

4.1 Specimen Certificate for Shares of the Company's Common Stock**

4.2 Description of Capital Stock (contained in the Restated Articles of Organization of the Company filed as Exhibit 3.1) **

10.1 Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company**

10.2 Exclusive License Agreement, dated December 6, 1994, between the University of North Carolina at Chapel Hill and the Company**

10.3 Contract, dated September 30, 1995, between the National Institutes of Health and the Company (No. 1-AI55273) **

10.4 Contract, dated September 30, 1995, between the National Institutes of Health and the Company (No. 1-AI-55277) **

10.6 Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company**

10.7 Lease Agreement, dated June 30, 1992, for Rockville, Maryland Facility between Cambridge Biotech Corporation and the Company**

10.8 Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company**

10.9 Worcester County Institution for Savings Warrant dated December 1, 1995 (No. 1) **

10.10 Worcester County Institution for Savings Warrant dated July 26, 1993 (No. 2) **

10.11 Stock Purchase Agreement, dated June 5, 1990, between G&G Diagnostics Limited Partnership I and the Company, as amended**

10.14 Stock Purchase Agreement, dated April 26, 1996, between Kyowa Medex Co., Ltd. And the Company**

10.15 1987 Non-Qualified Stock Option Plan**++

10.16 Employee Stock Option Plan**++

10.17 Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P. **

10.20 Purchase Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.21 Warrant Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.22 Stockholders' Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.23 License Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company**

10.24.1 Commercial Loan Agreement, dated as of March 28, 1997, between The First National Bank of Boston and the Company**

10.25 Asset Purchase Agreement, dated March 26, 1997 between Source Scientific, Inc. and the Company**

10.26 Contract, dated March 1, 1997, between National Cancer Institute and the Company**

10.27 Lease Agreement, dated May 16, 1997, for Gaithersberg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company

10.28 Lease Agreement, dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific, Inc. and BBI Source Scientific

11 Statement re: Computation of Per Share Earnings

21.1 Subsidiaries of the Company

23.1 Consent of Coopers & Lybrand L.L.P.

27 Financial Data Schedule

++ Management contract or compensatory plan or arrangement.

** In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

(b) Reports on Form 8-K

The Registrant did not file any Current Reports on Form 8-K during the quarter ended December 31, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized..

Date: March 30, 1998 Boston Biomedica, Inc.

By:/s/Richard T. Schumacher

Richard T. Schumacher

President and Chief Executive Officer

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

<TABLE>
<CAPTION>

SIGNATURES	TITLES	DATE
<S>	<C>	<C>
/s/Richard T. Schumacher Richard T. Schumacher	President, Chief Executive Officer, and Chairman of the Board (Principal Executive Officer)	March 30, 1998
/s/Kevin W. Quinlan Kevin W. Quinlan	Senior Vice President, Finance; Chief Financial Officer; Treasurer and Director (Principal Accounting Officer)	March 30, 1998
/s/Calvin A. Saravis Calvin A. Saravis	Director	March 30, 1998
/s/Henry A. Malkasian Sr. Henry A. Malkasian, Sr.	Director	March 30, 1998
/s/Francis E. Capitanio Francis E. Capitanio	Director	March 30, 1998

</TABLE>

EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit No.	Reference
<S> <C>	<C>
3.1 Amended and Restated Articles of Organization of the Company	A**
3.2 Amended and Restated Bylaws of the Company	A**
4.1 Specimen Certificate for Shares of the Company's Common Stock	A**
4.2 Description of Capital Stock (contained in the Restated Articles of Organization of the Company filed as Exhibit 3.1)	A**
10.1 Agreement, dated January 17, 1994, between Roche Molecular Systems, Inc. and the Company	A**
10.2 Exclusive License Agreement, dated December 6, 1994, between the University of North Carolina at Chapel Hill and the Company	A**
10.3 Contract, dated September 30, 1995, between the National Institutes of Health and the Company (No. 1-AI55273)	A**
10.4 Contract, dated September 30, 1995, between the National Institutes of Health and the Company (No. 1-AI-55277)	A**
10.6 Agreement, dated October 1, 1995, between Ajinomoto Co., Inc. and the Company	A**
10.7 Lease Agreement, dated June 30, 1992, for Rockville, Maryland Facility between Cambridge Biotech Corporation and the Company	A**

10.8	Lease Agreement, dated July 28, 1995, for New Britain, Connecticut Facility between MB Associates and the Company	A**
10.9	Worcester County Institution for Savings Warrant dated December 1, 1995 (No. 1)	A**
10.10	Worcester County Institution for Savings Warrant dated July 26, 1993 (No. 2)	A**
10.11	Stock Purchase Agreement, dated June 5, 1990, between G&G Diagnostics Limited Partnership I and the Company, as amended	A**
10.14	Stock Purchase Agreement, dated April 26, 1996, between Kyowa Medex Co., Ltd. and the Company	A**
10.15	1987 Non-Qualified Stock Option Plan*	A**
10.16	Employee Stock Option Plan*	A**
10.17	Underwriters Warrants, each dated November 4, 1996, between the Company and each of Oscar Gruss & Son Incorporated and Kaufman Bros., L.P.	B**
10.20	Purchase Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.21	Warrant Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**

10.22	Stockholders' Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.23	License Agreement, dated October 7, 1996, between BioSeq, Inc. and the Company	A**
10.24.1	Commercial Loan Agreement, as of dated March 28, 1997, between The First National Bank of Boston and the Company	C**
10.25	Asset Purchase Agreement, dated March 26, 1997 between Source Scientific, Inc. and the Company	C**
10.26	Contract, dated March 1, 1997, between National Cancer Institute and the Company	D**
10.27	Lease Agreement, dated May 16, 1997, for Gaithersberg, Maryland facility between B.F. Saul Real Estate Investment Trust and the Company	E**
10.28	Lease Agreement, dated January 30, 1995 for Garden Grove, California facility between TR Brell, Cal Corp. and Source Scientific, Inc., and Assignment of Lease, dated July 2, 1997, for Garden Grove, California facility between Source Scientific, Inc. and BBI Source Scientific	Filed herewith
11	Statement re: Computation of Per Share Earnings	Filed herewith
21.1	Subsidiaries of the Company	Filed herewith
23.1	Consent of Coopers & Lybrand L.L.P.	Filed herewith
27	Financial Data Schedule	Filed herewith

</TABLE>

A Incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-10759)(the "Registration Statement"). The number set forth herein is the number of the Exhibit in said registration statement.

B Incorporated by reference to the Registration Statement, where

the Exhibit was filed as Exhibit No. 10.17 and contained in Exhibit 1.1.

C Incorporated by reference to the Company's Annual Report on Form 10K for the fiscal year ended December 31, 1996.

D Incorporated by reference to the Company's Quarterly Report on Form 10Q for the fiscal quarter ended March 31, 1997.

E Incorporated by reference to the Company's Quarterly Report on Form 10Q for the fiscal quarter ended June 30, 1997.

* Management contract or compensatory plan or arrangement.

** In accordance with Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

SCHEDULE II
BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

<TABLE>
<CAPTION>

Allowance for Doubtful Accounts	Balance at Beginning of Period	Additions to Allowance	Recoveries For Accounts Previously Written Off	Uncollectible Accounts Written Off	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
1997	$352,058	$395,272	$194,154	$(494,967)	$446,517
1996	142,372	429,677	62,753	(282,744)	352,058
1995	94,723	181,084	-	(133,435)	142,372
1994	43,956	102,099	-	(51,332)	94,723

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
BOSTON BIOMEDICA, INC.:

In connection with our audits of the consolidated financial statements of Boston Biomedica, Inc. and Subsidiaries, as of December 31, 1996 and 1997, and for each of the three years in the period ended December 31, 1997, which financial statements are included in this Annual Report on Form 10-K, we have also audited the consolidated financial statement schedule listed in Item 14 herein.

In our opinion, this consolidated financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
February 24, 1998

EXHIBIT 11

BOSTON BIOMEDICA, INC. AND SUBSIDIARIES
STATEMENT RE COMPUTATION OF INCOME PER SHARE
WEIGHTED AVERAGE SHARES

	Year Ended December 31,		
	1995	1996	1997
Shares, basic	2,569,641	2,915,522	4,437,801
Net effect of dilutive common stock equivalents-based on treasury stock method using average market price	470,547	424,714	342,269
Shares, diluted	3,040,188	3,340,236	4,780,070
Net income, basic and diluted	$ 102,990	$ 481,220	$1,004,834
Net income per share-basic	0.04	0.17	0.23
Net income per share-diluted	0.03	0.14	0.21

EXHIBIT 21.1

Subsidiaries of the Company

<TABLE>
<CAPTION>

Name	Jurisdiction of Organization	Location
<S>	<C>	<C>
BBI Clinical Laboratories, Inc.	Massachusetts	New Britain, CT
BBI Biotech Research Laboratories, Inc.	Massachusetts	Gaithersburg, MD
BBI Source Scientific, Inc.	Massachusetts	Garden Grove, CA

</TABLE>

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Boston Biomedica, Inc. on Form S-8 (File No 333-24749) of our report dated February 24, 1998, on our audits of the consolidated financial statements and financial statements schedule of Boston Biomedica, Inc. as of December 31, 1997 and 1996, and for the years ended December 31, 1997, 1996 and 1995, which report is included in this annual report on form 10-K.

Boston, Massachusetts
March 27, 1998

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ASSIGNMENT OF LEASE

This Assignment of Lease ("Assignment") is made as of July ___, 1997, between Source Scientific, Inc., a California corporation ("Assignor") and BBI-Source Scientific, Inc.

RECITALS

A. TR Brell, Cal Corp., an Illinois corporation("Landlord"), as Landlord, and Assignor, as Tenant, executed a lease dated as of January 30, 1995 (the "Lease"), a copy of which is attached and incorporated herein by reference as Exhibit "A." Pursuant to the Lease, Landlord leased to Tenant and Tenant leased from Landlord that certain property described within the Lease attached hereto as exhibit," for a term of seven(7) years, commencing on February 1, 1995 and ending on January 31, 2002, subject to earlier termination as provided in the Lease.

Assignor desires to assign the Lease to Assignee, and Assignee desires to accept the assignment of the Lease from Assignor and assume the Lease, and all other obligations under the Lease.

THEREFORE, FOR GOOD AND VALUABLE CONSIDERATION, the receipt and adequacy of which are hereby acknowledged, Assignor and Assignee agree as follows:

1. Assignment:

Assignor assigns and transfers to Assignee all right, title, and interest in the Lease, and Assignee accepts from Assignor, all right, title and interest in the Lease. This Assignment shall have the effect and be construed as though the Assignee was the original Tenant under the Lease.

2. Assumption of Lease Obligations:

Assignee assumes and agrees to perform and fulfill all of the terms, covenants, conditions and obligations required to be performed and fulfilled by Assignor as Lessee under the Lease and/or that certain Settlement Agreement between Landlord and Assignor with the Effective Date of February 15, 1996 ("Agreement"), including the making of all payments due to or payable on behalf of Lessor under the Lease and/or Agreement as they become due and payable.

Notwithstanding the foregoing, the Assignment of the Lease to Assignee shall not affect the liability of Assignor under the Lease, and Assignor shall continue to be responsible for the performance of all provisions and conditions thereof.

This Assignment shall neither operate nor be construed as a notation by Landlord in favor of Assignor, and Landlord shall retain all rights and remedies under the Lease against Assignor as if the Lease had not been assigned.

3. Interpretation and Governing Law:

This Assignment shall be governed by and construed in accordance with California law in effect as of the date of the Assignment and according to its fair meaning as if prepared jointly and equally by Assignor, Assignee and Landlord.

It shall be deemed that, for the purpose of enforcement by Landlord of any term, covenant, condition, restriction and/or obligation provided by the Lease against Assignee, privity of estate and privity of contract exists between Landlord and Assignee with respect to any such enforcement.

ASSIGNOR:

_____
Authorized representative of
Source Scientific, Inc.

ASSIGNEE:

_____
Authorized representative of
BBI-Source Scientific, Inc.

CONSENT AND APPROVAL:

The undersigned, on behalf of and as Landlord's authorized representative, consents to this Assignment of the Lease to Assignee, provided however that notwithstanding this Assignment and the Landlord's consent to this Assignment, Landlord does not in whole or in part waive or relinquish any rights under the Lease against Assignor or Assignee. Landlord consents to this Assignment without waiving its rights with respect to future assignments.

LANDLORD:

_____
Authorized representative of Koll
the Real Estate Services Company,
as authorized representative of
TR Brell, Cal Corp., an Illinois Corporation

AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION

STANDARD INDUSTRIAL/COMMERCIAL SINGLE-TENANT LEASE-NET
(Do not use this form for Multi-Tenant Property)

1. Basic Provisions ("Basic Provisions")
1.1 Parties: This Lease ("Lease"), dated for reference purposes only, January 30, 1995, is made by and between TR BRELL.,CAL CORP, an Illinois corporation ("Lessor") and SOURCE SCIENTIFIC, INC., a California corporation ("Lessee"), (collectively the "Parties," or individually a "Party").

1.2 Premises: That certain real property, including all improvements therein or to be provided by Lessor under the terms of the Lease, and commonly known by the street address of 7390 Lincoln Way located in the County of Orange State of California and generally described as (describe briefly the nature of the property) Approximately 41,184 square feet of space commonly known as 7390 Lincoln Way, garden Grove, California, as shown by diagonal lines on exhibit "A" attached hereto. ("Premises"). (See Paragraph 2 for further provisions.)

1.3 Term: SEVEN (7) years and 0 months ("Original Term") commencing February 1, 1995 ("Commencement Date") and ending January 31, 2002 ("Expiration Date"). (See Paragraph 3 for future provisions.)

1.4 Early Possession ---------- ("Early Possession Date").(See Paragraphs 3.2 and 3.3 for future provisions.)

1.5 Base Rent: $26,185 per month ("Base Rent"), payable on the FIRST day of each month commencing FEBRUARY 1, 1995 (See Addendum, Paragraph 49 and 50) (See Paragraph 4 for further provisions.) X if this box is checked, there are provisions in this Lease for the Base Rent to be adjusted.

1.6 Base Rent Paid Upon Execution: $ N/A as base rent for the period

1.7 Security Deposit: $ 29,678 ("Security Deposit"). (See Paragraph 5 for further provisions.)

1.8 Permitted Use: MANUFACTURE OF MEDICAL., DIAGNOSTIC EQUIPMENT AND RELATED OFFICE PURPOSES. (See Paragraph 6 for further provisions.)

1.9 Insuring Party: Lessor is the "Insuring Party" unless otherwise stated herein. (See Paragraph 8 for further provisions.)

1.10 Real Estate Brokers: The following real estate brokers (collectively, the "Brokers") and brokerage relationships exist in this transaction and are consented to by the Parties (check applicable boxes):
_____ represents Lessor exclusively ("Lessor's Broker"); both Lessor and lessee, and
_____VOIT COMMERCIAL____ represents Lessee exclusively ("Lessee's Broker"); both Lessee and Lessor. (See Paragraph 15 for further provisions)

1.11 Guarantor. the obligations of the Lessee under this Lease are to be guaranteed by N/A ("Guarantor"). (See Paragraph 37 for further provisions.)

1.12 Addenda. Attached hereto is an Addendum or Addenda consisting of Paragraphs 48(a) through 64 and Exhibits A, B, C and D all of which constitute a part of this Lease.

2. Premises:

2.1 Letting, Lessor hereby leases to Lessee , and Lessee hereby leases from Lessor, the Premises, for the term, at the rental, and upon all of the terms, covenants and conditions set forth in this lease. Unless otherwise provided herein, any statement of square footage set forth in this lease, or that may have been used in calculating rental, is an approximation which Lessor and lessee agree is reasonable and the rental based thereon is not subject to revision whether or not the actual square footage is more or less.

2.4 Acceptance of Premises. Lessee hereby acknowledges: (a) that it has been advised by the Brokers to satisfy itself with respect to the condition of the Premises including but not limited to the electrical and fire sprinkler systems, security, environmental aspects, compliance with Applicable law, as defined in paragraph 6.3) and the present and future suitability of the Premises for Lessee's intended use. (b) that Lessee has made such investigation as it deems necessary with reference to such matters and assumes all responsibility therefor as the same relate to Lessee's occupancy of the Premises and/or the term of this lease, and (c) that neither Lessor, nor any of Lessor's agents, has made any oral or written representations or warranties with respect to the said matters other than as set forth in this Lease.

2.5 lessee prior Owner/Occupant. the warranties made by Lessor in this Paragraph 2 shall be of no force or effect if immediately prior to the date set forth in Paragraph 1.1 Lessee was the owner or occupant of the Premises in such event. Lessee shall, at Lessee's sole cost and expense, correct any non-compliance of the Premises with said warranties.

3. Term.

3.1 Term. The Commencement Date, Expiration date and Original Term of this Lease are as specified in Paragraph 1.3.

3.2 Early Possession. If Lessee totally or partially occupies the Premises prior to the Commencement Date, the obligation to pay Base Rent shall be abated for the period of such early possession, All other terms of this Lease, however, (including but not limited to the obligations to pay Real Property Taxes and insurance premiums and to maintain the Premise s shall be in effect during such

period Any such early possession shall not affect nor advance the Expiration Date of the Original Term.

1 (a) that it presently is in occupancy of the Premises, is familiar with the Premises and

4. Rent.

4.1 Base Rent. Lessee shall cause payment of Base Rent and other rent or charges, as the same may be adjusted from time to time, to be received by Lessor in lawful money of the United States, without offset or deduction, on or before the day on which it is due under the terms of this Lease. Base Rent and all other rend and charges for any period during the term hereof which is for less than one (1) full calendar month shall be prorated based upon the actual number of days of the calendar month, involved. Payment of Base Rent and other charges shall be made to Lessor at its address stated herein or to such other persons or at such other addresses as Lessor may from time to time designate in writing to Lessee.

5. Security Deposit, Lessee shall deposit with Lessor upon execution hereof the security Deposit set forth in Paragraph 1.7 as security for Lessee's faithful performance of Lessee's obligations under this lease. If Lessee fails to pay Base Rent or other rent or charges due hereunder, or otherwise Defaults under this Lease (as defined in Paragraph 13.1), Lessor may use, apply or retain all or any portion of said Security Deposit for the payment of any amount due Lessor or to reimburse or compensate Lessor for any liability, cost, expense, loss or damage (including attorneys' fees) which Lessor may suffer or incur by reason thereof. If Lessor uses or applies all or any portion of said Security Deposit, Lessee shall within ten (10) days after written request therefor deposit moneys with Lessor sufficient to restore said Security Deposit to the full amount required by this Lease. Any time the Base Rent increases during the term of this Lease, Lessee shall, upon written request from Lessor, deposit additional moneys with Lessor sufficient to maintain the same ratio between the Security Deposit and the Base Rent as those amounts are specified in the Basic Provisions. Lessor shall not be required to keep all or part of the Security Deposit separate from its general accounts. Lessor shall, at the expiration or earlier termination of the term hereof and after Lessee has vacated the Premises and performed all of its obligations hereunder through to and including with respect to Lessee's surrender of the Premises, return to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest herein), that portion of the Security Deposit not used or applied by Lessor. Unless otherwise expressly agreed in writing by Lessor, no part of the Security Deposit shall be considered to be held in trust, to bear interest or other increment for its use, or to be prepayment for any moneys to be paid by Lessee under this Lease.

6. Use.

6.1 Use. Lessee shall use and occupy the Premises only for the purposes set forth in Paragraph 1.8, and for no other purpose. Lessee shall not use or permit the use of the Premises in a manner that creates waste or a nuisance, or that disturbs owners and/or occupants or, or causes damage to, neighboring premises or properties.

6.2 Hazardous Substances.

(a) Reportable Uses Require Consent. The term "Hazardous Substance " as used in this Lease shall mean any product, substance, chemical, material or waste whose presence, nature, quantity and/or intensity or existence, use manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials expected to be on the Premises, is either: (i) potentially injurious to the public health, safety or welfare, the environment or the Premises, (ii) regulated or monitored by any governmental authority, or (iii) a basis for liability of Lessor to any governmental agency or third party under any applicable statute or common law theory. Hazardous Substance shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil or any products, by-products or fractions thereof. Lessee shall not engage in any activity in, on or about the Premises which constitutes a Reportable Use (as hereinafter defined) of Hazardous Substances without the

express prior written consent of Lessor and compliance in a timely manner (at Lessee's sole cost and expense) with all Applicable Law (as defined in Paragraph 6.3) "Reportable Use" shall mean (i)the installation or use of any above or below ground storage tank, (ii) the generation, possession, storage, use, transportation, or disposal of a Hazardous substance that requires a permit from, or with respect to which a report, notice, registration or business plan is required to be filed with, any governmental authority. Reportable Use shall also include Lessee's being responsible for the presence in, on or about the Premises of a Hazardous Substance with respect to which any Applicable Law requires that a notice be given to persons entering or occupying the Premises or neighboring properties. Notwithstanding the foregoing, Lessee may, without Lessor's prior consent, but in compliance with all Applicable Law, use any ordinary and customary materials reasonably required to be used by Lessee in the normal course ee's business permitted on the Premises, so long as such use is not a Reportable Use and does not expose the Premises or neighboring properties to any meaningful risk of contamination or damage or expose Lessor to any liability therefor. in addition, Lessor may (but without any obligation to do so) condition its consent to the use or presence of any Hazardous Substance, activity or storage tank by Lessee upon Lessee's giving Lessor such additional assurances as Lessor, In its reasonable discretion, deems necessary to protect itself, the public, the Premises and the environment against damage, contamination or injury and/or liability therefrom or therefor, including, but not limited to, the installation (and removal on or before Lease expiration or earlier termination) of reasonably necessary protective modifications to the Premises (such as concrete encasements) and/or the deposit of an additional Security Deposit under Paragraph 5 hereof.

(b) Duty to Inform Lessor. If Lessee knows, or has reasonable cause to believe, that a Hazardous Substance, or a condition involving or resulting from same, has come to be located in, on, under or about the Premises, other than as previously consented to by Lessor, Lessee shall immediately give written notice of such fact to Lessor, Lessee shall also immediately give Lessor a copy of any statement, report, notice, registration, application, permit, business plan, license, claim, action or proceeding given to, or received from, any governmental authority or private party, or persons entering or occupying the Premises, concerning the presence, spill, release, discharge of, or exposure to, any Hazardous Substance or contamination in, on, or about the Premises, including but not limited to all such documents as may be involved in any Reportable Uses involving the Premises.

(c) Indemnification, Lessee shall indemnify, protect, defend and hold Lessor, its agents, employees, lenders and ground lessor, if any, and the Premises, harmless from and against any and all loss of rents and/or damages, liabilities, judgments, costs, claims, liens, expense, penalties, permits and attorney's and consultant's fees arising out of or involving any Hazardous Substance or storage tank brought onto the Premises by or for Lessee or under Lessee's control. Lessee's obligations under this Paragraph 6 shall include, but not be limited to, the effects of any contamination or injury to person, property or the environment created or suffered by Lessee, and the cost of investigation (including consultant's and attorney's fees and testing), removal, remediation, restoration and/or abatement thereof, or of any contamination therein involved, and shall survive the expiration or earlier termination of this Lease. No termination, cancellation or release agreement entered into by Lessor and Lessee shall release Lessee from its obligations under this Lease with respect to Hazardous Substances or storage tanks, unless specifically so agreed by Lessor in writing at the time of such agreement.

6.3 Lessee's Compliance with Law. Except as otherwise provided in this Lease, Lessee, shall, at Lessee's sole cost and expense, fully, diligently and in a timely manner, comply with all "Applicable Law." which term is used in this Lease to include all laws, rules, regulations, ordinances, directives, covenants, easements and restrictions of record, permits, the requirements of any applicable fire insurance underwriter or rating bureau, and the recommendations of Lessor's engineers and/or consultants, relating in any manner to the Premises (including but not limited to matters pertaining to (i) industrial hygiene, (ii) environmental conditions on, in, under or about the Premises, including soil and groundwater condition, and (iii) the use, generation, manufacture, production, installation, maintenance, removal, transportation, storage, spill or release of any Hazardous Substance or storage tank), now in effect or which may hereafter come into effect, and whether or not reflecting a change in policy from any previously existing policy. Lessee shall, within five (5) days after receipt of Lessor's written request, provide Lessor with copies of all documents and information, including, but not limited

to, permits, registrations, manifests, applications, reports and certificates, evidencing Lessee's compliance with any Applicable Law specified by Lessor, and shall immediately upon receipt, notify Lessor in writing (with copies of any documents involved) of any threatened or actual claim, notice, citation, warning, complaint or report pertaining to or involving failure by Lessee or the Premises to comply with any Applicable Law.

6.4 Inspection; Compliance,. Lessor and Lessor's Lender(s) (as defined in Paragraph 8.3 (a))shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times, for the purpose of inspecting the condition of the Premises and for verifying compliance by Lessee with this Lease and all Applicable Laws (as defined in Paragraph 6.3), and to employ experts and/or consultants in connection therewith and/or to advise Lessor with respect to Lessee's activities, including but not limited to the installation, operation, use, monitoring, maintenance, or removal of any Hazardous Substance or storage tank on or from the Premises. The costs and expenses of any such inspections shall be paid by the party requesting same, unless a Default or Breach of this Lease, violation of Applicable Law, or a contamination, caused or materially contributed to by Lessee is found to exist or be imminent, or unless the inspection is requested or ordered by a governmental authority as the result of any such existing or imminent violation or contamination, in any such case, Lessee shall upon request reimburse Lessor or Lessor's Lender, as the case may be, for the costs and expenses of such inspections.

7. Maintenance; Repairs; Utility installations; Trade Fixtures and Alterations.

7.1 Lessee's Obligations. (a) Subject to Addendum Paragraph 52,

Initials _____

7.2 (Lessor's obligations to repair), 9 (damage and destruction), and 14 (condemnation), Lessee shall be Lessee's sole cost and expense and at all times, keep the Premises and every part thereof in good order, condition and repair, structural and non-structural whether or not such portion of the Premises requiring repairs, or the means of repairing the same, are reasonably or readily accessible to Lessee, and whether or not the need for such repairs occurs as a result of Lessee's use, any prior use, the elements or the age of such portion of the Premises), including, without limiting the generality of the foregoing, all equipment or facilities serving the Premises, such as plumbing, heating, air conditioning, ventilating, electrical, lighting facilities, boilers, fired or unfired pressure vessels, fire sprinkler and/or standpipe and hose or other automatic fire extinguishing system, including fire alarm and/or smoke detection systems and equipment, fire hydrants, fixtures, walls (interior and exterior), foundations, ceilings, roofs, floors, windows, doors, plate glass, skylights landscaping, driveways, parking lots, fences, retaining walls, signs, sidewalks and parkways located in, on, about, or adjacent to the Premises, Lessee shall not cause or permit any Hazardous Substance to be spilled or released in, on, under or about the Premises (including through the plumbing or sanitary sewer system) and shall promptly, at Lessee's expense, take all investigatory and/or remedial action reasonably (recommended, whether or not formally ordered or required, for the cleanup of any contamination of, and for the maintenance, security and/or monitoring of the Premises, the elements surrounding same, or neighboring properties, that was caused or materially contributed to by Lessee, or pertaining to or involving any Hazardous Substance and/or storage tank brought onto the Premises by or for Lessee or under its control Lessee, in keeping the Premises in good order, condition and repair, shall exercise and per form good maintenance practices. Lessee's obligations shall include restoration, replacements or renewals when necessary to keep the Premises and all improvements thereon or a part thereof in good order, condition and state of repair. If Lessee occupies the Premises for seven (7) years or more, Lessor may require Lessee to repaint the exterior of the buildings on the Premises as reasonably required, but not more frequently than once ever seven (7) years.

(b) Lease shall, at Lessee's sole cost and expense, procure and maintain contracts, with copies to Lessor, in customary form and substance for, and with contractors specializing and experienced in, the inspection,

maintenance and service of the following equipment and improvements, if any. located on the Premises: (i) heating, air conditioning and ventilation equipment, (ii) boiler, fired or unfired pressure vessels, (iii) fire sprinkler and/or standpipe and hose or other automatic fire extinguishing systems, including fire alarm and/or smoke detection, (iv) landscaping and irrigation systems. (v) roof covering and drain maintenance and (vi) asphalt and parking lot maintenance. Addendum Paragraph 52 and Paragraphs

7.2 Lessor's Obligations. Except for the agreements of Lessor contained in 9 (relating to destruction of the Premises) and 14 (relating to condemnation of the Premises), it is intended by the Parties hereto that Lessor have no obligation, in any manner whatsoever, to repair and maintain the Premises, the improvements located thereon, of the equipment therein, whether structural or non structural, all of which obligations are intended to be that of the Lessee under Paragraph 7.1 hereof. It is the intention of the Parties that the terms of this Lease govern the respective obligations of the Parties as to maintenance and repair of the Premises. lessee and Lessor expressly waive the benefit of any statute now or hereafter in effect to the extent it is inconsistent with the terms of this Lease with respect to, or which affords Lessee the right to make repairs at the expense of Lessor or to terminate this Lease by reason of any needed repairs.

7.3 Utility installations; Trade Fixtures; Alterations.

(a) Definitions; Consent Required. The term "Utility installations " is used in this Lease to refer to all carpeting, window coverings, air lines, power panels, electrical distribution, security, fire protection systems, communication systems, lighting fixtures, heating, ventilating, and air conditioning equipment, plumbing, and fencing in, on or about the Premises. The term "Trade Fixtures" shall mean Lessee's Machinery and equipment that can be removed without doing material damage to the Premises. The term "Alterations" shall mean any modification of the improvements on the Premises from that which are provided by Lessor under the terms of this Lease, other than Utility installations or Trade Fixtures, whether by addition or deletion. "Lessee Owned Alterations and/or Utility Installations" are defined as Alterations and/or Utility installations made by lessee that are not yet owned by Lessor as defined in Paragraph 7.4 (a). Lessee shall not make any Alterations or Utility installations in, on, under or about the Premises without Lessor's prior written consent, Lessee may, however, make non-structural Utility installations to the interior of the Premises (excluding the roof), as long as they are not visible from the outside, do not involve puncturing, relocating or removing the roof or any existing walls, and the cumulative cost thereof during the term of this Lease as extended does not exceed $25,000.

(b)Consent. Any Alterations or Utility Installations that Lessee shall desire to make and which require the consent of the Lessor shall be presented to Lessor in written form with proposed detailed plans. All consents given by Lessor, whether by virtue of Paragraph 7.3(a) or by subsequent specific consent, shall be deemed conditioned upon: (i) Lessee's acquiring all applicable permits required by governmental authorities, (ii) the furnishing of copies of such permits together with a copy of the plans and specifications for the Alteration or Utility Installation to Lessor prior to commencement of the work thereon, and (iii) the compliance by Lessee with all conditions of said permits in a prompt and expeditious manner. Any Alterations or Utility installations by Lessee during the term of this Lease shall be done in a good and workmanlike manner, with good and sufficient materials, and in compliance with all Applicable Law. Lessee shall promptly upon completion thereof furnish Lessor with as-built plans and specifications therefor. Lessor may (but without obligation to do so) condition its consent to any requested Alteration or Utility installation that costs $10,000 or more upon Lessee's providing Lessor with a lien and completion bond in an amount equal to one and one-half times the estimated cost of such Alteration or Utility installation and/or upon Lessee's posting an additional Security Deposit with Lessor under Paragraph 36 hereof.

(c) Indemnification. lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use on the Premises, which claims are or may be secured by any mechanics' or materialmen's lien against the Premises or any interest therein. Lessee shall give Lessor not less than ten (10) days' notice prior to the commencement of any work in, on or about the Premises, and Lessor shall have the right to post notices of non-responsibility in or on the

Premises as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend and protect itself, Lessor and the Premises against the same and shall pay and satisfy any such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises. If Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount5 equal to one and one-half times the amount of such contested lien claim or demand, indemnifying Lessor against liability for the same, as required by law for the holding of the Premises free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorney's fees and costs in participating in such action if Lessor shall decide it is to its best interest to do so.

7.4 Ownership; Removal; Surrender; and Restoration.

(a) Ownership. Subject to Lessor's right to require their removal or become the owner thereof as hereinafter provided in this Paragraph 7.4, all Alterations and Utility Additions made to the Premises by Lessee shall be the property of and owned by Lessee, but considered a part of the Premises, Lessor may, at any time and at its option, elect in writing to Lessee to be the owner of all or any specified part of the Lessee Owned Alteration and Utility installations. Unless otherwise instructed per subparagraph 7.4(b) hereof, all Lessee Owned Alterations and Utility installations shall, at the expiration or earlier termination of this Lease, become the property of Lessor and remain upon and be surrendered by Lessee with the Premises.

(b) Removal. Unless otherwise agreed in writing, Lessor may require that any or all Lessee Owned Alterations or Utility Installations be removed by the expiration or earlier termination of this Lease, notwithstanding their installation may have been consented to by Lessor, Lessor may require the removal at any time of all or any part of any Lessee Owned Alterations or Utility Installations made without the required consent of Lessor.

(c) Surrender/Restoration. Lessee shall surrender the Premises by the end of the last day of the Lease term or any earlier termination date, with all of the improvements, parts and surfaces thereof clean and free of debris and in good operating order, condition and state of repair, ordinary wear and tear excepted. "Ordinary wear and tear" shall not include any damage or deterioration that would have been prevented by good maintenance practice or by Lessee performing all of its obligations under this Lease. Except as otherwise agreed or specified in writing by Lessor, the Premises, as surrendered, shall include the Alterations and Utility Installations. The obligation of Lessee shall include the repair of any damage occasioned by the installation, maintenance or removal of Lessee's Trade Fixtures, furnishings, equipment, and Alterations and/or Utility Installations, as well as the removal of any storage tank installed by or for Lessee, and the removal, replacement, or remediation of any soil, material or ground water contaminated by Lessee, all as may then be required by Applicable Law and/or good service practice. Lessee's Trade Fixtures shall remain the property of Lessee and shall be removed by Lessee subject to its obligation to repair and restore the Premises per this Lease.

8. Insurance; Indemnity.

8.1 Payment For insurance. Regardless of whether the Lessor or Lessee is the insuring Party, Lessee shall pay, as additional rent, for all insurance required under this Paragraph 8 except tot he extent of the cost attributable to liability insurance carried by Lessor in excess of $3,000,000 per occurrence. Premiums for policy periods commencing prior to or extending beyond the Lease term shall be prorated to correspond to the Lease term. Payment shall be made by Lessee to Lessor within ten (10) days following receipt of an invoice for any amount due.

8.2 Liability Insurance.

(a) Carried by Lessee. See Addendum Paragraph 54.

(b) Carried By Lessor. In the event Lessor is the Insuring Party, Lessor shall also maintain liability insurance described in Paragraph 8.2(a), above, in addition to, and not in lieu of, the insurance required to be maintained by Lessee. Lessee shall not be named as an additional insured therein.

8.3 Property Insurance--Building, Improvements and Rental Value.

(a) Building and improvements. The insuring Party shall obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and to the holders of any mortgages, deeds of trust or ground leases on the Premises ("Lender(s)"), Insuring loss or damage to the Premises. The amount of such insurance shall be equal to the full replacement cost of the Premises, as the same shall exist from time to time, or the amount required by Lenders, but in no event more than the commercially reasonable and available insurable value thereof if, by reason of the unique nature or age of the improvements involved, such latter amount is less than full replacement cost. If lessor is the Insuring Party, however, Lessee Owned Alteration and Utility Installations shall be insured by Lessee under Paragraph 8.4 rather than by Lessor. If the coverage is available and commercially appropriate, such policy or policies shall insure against all risks of direct physical loss or damage, including, coverage for any additional costs resulting from debris removal and reasonable amounts of coverage for the enforcement of any ordinance or law regulating the reconstruction or replacement of any undamaged sections of the Premises required to be demolished or removed by reason of the enforcement of any building, zoning, safety or land use laws as the result of a covered cause of loss. Said policy or policies shall also contain an agreed valuation provision in lieu of any coinsurance clause, waiver of subrogation, and inflation guard protection causing an increase in the annual property Insurance coverage amount by a factor of not less than the adjusted U.S. Department of Labor Consumer Price Index for All Urban Consumers for the city nearest to where the Premises are located. If such insurance coverage has a deductible clause, the deductible amount shall not exceed $1,000 per occurrence, and Lessee shall be liable for such deductible amount in the event of an insured Loss, as in Paragraph 9.11(c).

(b) Rental Value. The Insuring Party shall, in addition, obtain and keep in force during the term of this Lease a policy or policies in the name of Lessor, with loss payable to Lessor and Lender(s), Insuring the loss of the full rental and other charges payable by Lessee to Lessor under this Lease for one (1) year (including all real estate taxes, insurance costs, and any scheduled rental increases). Said insurance shall provide that in the event the Lease is terminated by reason of an insured loss, the period of indemnity for such coverage shall be extended beyond the date of the completion of repairs or replacement of the Premises, to provide for one full year's loss of rental revenues from the date of any such loss. Said insurance shall contain an agreed valuation provision in lieu of any coinsurance clause, and the amount of coverage shall be adjusted annually to reflect the projected rental income, property taxes, insurance premium costs and other expenses, if any. otherwise payable by Lessee, for the next twelve (12) month period. Lessee shall be liable for any deductible amount in the event of such loss.

(c) Adjacent Premises, if the Premises are part of a larger building, or if the Premises are part of a group of buildings owned by Lessor which are adjacent to the premises, the Lessee shall pay for any increase in the premiums for the property insurance of such building or buildings if said increase is caused by Lessee's acts, omissions, use or occupancy of the Premises.

(d) Tenant's improvements. If the Lessor is the Insuring party, the Lessor shall not be required to insure Lessee Owned Alterations and Utility Installations if Lessee is the Insuring Party, the policy carried by Lessee under this Paragraph 8.3 shall insure Lessee Owned Alterations and Utility Installations. See Addendum Paragraph 54.

8.4 Lessee's Property Insurance.

8.5 Insurance Policies, Insurance required hereunder shall be in companies duly licensed to transact business in the state where the Premises are located, and maintaining during the policy term a "General Policyholders Rating" of at least A:X or such other rating as may be required by a Lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance guide. Lessee shall not due or permit to be done anything which shall invalidate the Insurance policies referred to in this Paragraph 8. Lessee shall cause to be delivered to Lessor certified copies of policies of such insurance or

certificates evidencing the existence and amounts of such insurance with the insureds and loss payable clauses as required by this Lease. No such policy shall be cancelable or subject to modification except after thirty (30) days prior written notice to Lessor. Lessee shall at least thirty (30) days prior to the expiration of such policies, furnish Lessor with evidence of renewals or "insurance binders" evidencing renewal thereof, or Lessor may order such Insurance and charge the cost thereof to Lessee, which amount shall be payable by Lessee to Lessor upon demand. If the Insuring Party shall fail to procure and maintain the insurance required to be carried by the insuring Party under this Paragraph 8, the other Party may, but shall not be required to, procure and maintain the same, but at Lessee's expense.

8.6 Waiver of Subrogation. Without affecting any other rights or remedies, Lessee and Lessor ("Waiving Party") each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss of or damage to the Waiving Party's property arising out of or incident to the perils required to be insured against under Paragraph 8. The effect of such releases and waivers of the right to recover damages shall not be limited by the amount of insurance carried or required, or by any deductibles applicable thereto.

8.7 Indemnity. Except for Lessor's gross negligence and/or breach or express warranties, Lessee shall indemnify, protect, defend and hold harmless the Premises, Lessor and its agents, Lessor's master or ground lessor, partners and Lenders (collectively, "Lessor Parties") from and against any and all claims, loss of rents and/or damages, costs, liens, judgments, penalties, permits, attorney's and consultant's fees, expenses and/or liabilities arising out of, involving, or in dealing with, the occupancy of the Premises by Lessee, the conduct of Lessee's business, any ace, omission or neglect or Lessee, its agents, contractors, employees or invitees, and out of any Default of Breach by lessee in the performance in a timely manner of any obligation on lessee's part to be performed under this Lease. The foregoing shall include, but not be limited to, the defense or pursuit of any claim or any action or proceeding involved therein, and whether or not (in the case of claims made against Lessor) litigated and/or reduced to judgment, and whether well founded or not. In case any action or proceeding be brought against Lessor by reason of any of the foregoing matters, Lessee upon notice from Lessor shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperated with Lessee in such defense. Lessor need not have first paid any such claim in order to be so indemnified.

8.8 Exemption of Lessor from Liability, Lessor shall not be liable for injury or damage to the person or goods, wares, merchandise or other property of Lessee, Lessee's employees, contractors, invitees, customers, or any other person in or about the Premises, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, fire sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether the said injury or damage results from conditions arising upon the Premises or upon other portions of the building of which the Premises are a part, or from other sources or places, and regardless of whether the cause of such damage or injury or the means of repairing the same is accessible or not. Lessor shall not be liable for any damages arising from any act or neglect of any other tenant of Lessor. notwithstanding Lessor's negligence or breach of this Lease, Lessor shall under no circumstances be liable for injury to Lessee's business or for any loss of income or profit therefrom.

9. Damage or Destruction.

9.1 Definitions.

(a) "Premises Partial Damage" See Addendum Paragraph 56.

(c) "Insured Loss" shall mean damage or destruction the Premises, other than Lessee Owned Alterations and Utility Installations, which was caused by an event required to be covered by the insurance described in Paragraph 8.3(a), Irrespective of any deductible amounts.

9.2 Partial Damage--Insured Loss. If a Premises Partial Damage that is an Insured Loss occurs, then Lessor shall, at Lessor's expense (except as to the deductible which is Lessee's responsibility), repair such damage (but not Lessee's Trade Fixtures or Lessee Owned Alterations and Utility Installations as soon as reasonably possible and this Lease shall continue in full force and

effect; provided, however, that Lessee shall, at Lessor's election, make the repair of any damage or destruction the total cost to repair of which is $10,000 or less, and, in such event, Lessor shall make the insurance proceeds available to Lessee on a reasonable basis for that purpose. Unless otherwise agreed, Lessee shall in no event have any right to reimbursement from Lessor for
(except as to deductible which is Lessee's responsability),

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(Exclusive of Lessee's trade fixtures or Leese Owned Alterations and Utility Installations)

(except as to the deductable which is Lessee's responsability)

any funds contributed by Lessee to repair any such damage or destruction

9.3 Partial Damage--Uninsured Loss. If a Premises Partial Damage that is not an Insured Loss occurs, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense and this Lease shall continue in full force and effect, but subject to Lessor's rights under Paragraph 13), Lessor may at Lessor's option, either: (i) repair such damage (exclusive of Lessee's Trade Fixtures, or Lessee Owned Alterations and Utility Installations), as soon as reasonably possible at Lessor's expense (except as to the deductible which is Lessee's responsibility), in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within thirty (30) days after receipt by Lessor of knowledge of the occurrence of such damage of Lessor's desire to terminate this Lease as of the date sixty (60) days following the giving of such notice. In the event Lessor elects to give such notice of Lessor's intention to terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's commitment to pay for the repair of such damage totally at Lessee's expense and without reimbursement from Lessor. Lessee shall provide Lessor with the required funds or satisfactory assurance thereof within thirty (30) days following Lessee's said commitment. In such event this Lease shall continue in full force and effect, and Lessor shall proceed to make such repairs as soon as reasonably possible and the required funds are available. If Lessee does not give such notice and provide the funds or assurance thereof within the times specified above, this Lease shall terminate as of the date specified in lessor's damages from Lessee except as released and waived in Paragraph 8.6.

9.4 Total Destruction. Notwithstanding any other provision hereof, if a Premises Total Destruction occurs (including any destruction required by any authorized public authority), this Lease shall terminate sixty (60) days following the date of such Premises Total Destruction, whether or not the damage or destruction is an Insured Loss or was caused by a negligent or willful act of Lessee. In the event, however, that the damage or destruction was caused by Lessee, Lessor shall have the right to recover Lessor's damages from Lessee except as released and waived in Paragraph 8.6.

9.5 Damage near End of Term. if at any time during the last six (6) months of the term of this Lease there is damage for which the cost to repair exceeds one (1) month's Base Rent, whether or not an Insured Loss, Lessor may, at Lessor's option, terminate this Lease effective sixty (60) days following the date of occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within thirty (30) days after the date of occurrence of such damage, Provided, however, if Lessee at that time has an exercisable option to extend this Lease or to purchase the Premises, then Lessee may preserve this Lease by, within twenty (20) days following the occurrence of the damage, or before the expiration of the time provided in such option for its exercise, whichever is earlier ("Exercise Period"), (i) exercising such option and (ii) providing Lessor with any shortage in Insurance proceeds for adequate assurance thereof), needed to make the repairs, If Lessee duly exercises such option during said Exercise Period and provides Lessor with funds (or adequate assurance thereof) to cover any shortage in Insurance proceeds, Lessor shall, at Lessor's expense repair such damage as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option and provide such funds or assurance during said Exercise Period, then Lessor may at Lessor's option terminate this lease as of the expiration of said sixty (60) day period following the occurrence of such damage by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of the Exercise Period, notwithstanding any term or provision in the

grant of option to the contrary.

9.8 Abatement of Rent; lessee's Remedies.

(a) In the event of damage described in Paragraph 9.2 (Partial Damage--Insured), whether or not Lessor or Lessee repairs or restores the Premises, the Base Rent, Real Property Taxes, Insurance Premiums, and other charges, if any, payable by lessee hereunder for the period during which such damage, its repair or the restoration continues (not to exceed the period for which rental value insurance is required under Paragraph 8.3(b)), shall be abated in proportion to the degree to which Lessee's use of the Premises is Impaired. Except for abatement of Base Rent, Real Property Taxes, Insurance premiums, and other charges, if any, as aforesaid, all other obligations of Lessee hereunder shall be performed by Lessee, and Lessee shall have no claim against Lessor for any damage suffered by reason of any such repair or restoration.

(b) If Lessor shall be obligated to repair or restore the premises under the provisions of this Paragraph 9 and shall not commence, in a substantial and meaningful way, the repair or restoration of the Premises within ninety (90) days after such obligation shall accrue, Lessee may, at any time prior to the commencement of such repair or restoration, give written notice to Lessor and to any Lenders of which Lessee has actual notice of Lessee's election to terminate this Lease on a date not less than sixty (60) days following the giving of such notice. If Lessee gives such notice to Lessor and such Lenders and such repair or restoration is not commenced within thirty (30) days after receipt of such notice, this Lease shall terminate as of the date specified in said notice. If Lessor or a Lender commences the repair or restoration of the Premises within thirty (30) days after receipt of such notice, this Lease shall continue in full force and effect. "Commence" as used in this Paragraph shall mean either the unconditional authorization of the preparation of the required plans, or the beginning of the actual work on the Premises, whichever first occurs.

9.8 Termination--Advance Payments. upon termination of this Lease pursuant to this Paragraph 9, an equitable adjustment shall be made concerning advance Base Rent and any other advance payments made by Lessee to Lessor, Lessor shall, in addition, return to Lessee so much of Lessee's Security Deposit as has not been, or is not then required to be, used by Lessor under the terms of this Lease.

9.9 Waive Statutes. Lessor and Lessee agree that the terms of this Lease shall govern the effect of any damage to or destruction of the Premises with respect to the termination of this Lease and hereby waive the provisions of any present or future statute to the extent inconsistent herewith.

10. Real Property Taxes.

10.1 (a)Payment of Taxes. Lessee shall pay, as additional rent, the real Property Taxes, as defined in Paragraph 10.2, applicable to the Premises during the term of this Lease. Subject to Paragraph 10.1(b), all such payments shall be made at least ten (10) days prior to the delinquency date of the applicable installment. Lessee shall promptly furnish Lessor with satisfactory evidence that such taxes have been paid. if any such taxes to be paid by Lessee shall cover any period of time prior to or after the expiration of earlier termination of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time prior to or after the expiration or earlier termination of the term hereof, Lessee's share of such taxes shall be equitably prorated to cover only the period of time within the tax fiscal year this Lease is in effect, and Lessor shall reimburse Lessee for any overpayment after such proration. If Lessee shall fail to pay any Real Property Taxes required by this Lease to be paid by Lessee. Lessor shall have the right to pay the same, and Lessee shall reimburse Lessor therefor upon demand.

(b) Advance Payment. In order to insure payment when due and before delinquency of any or all Real Property Taxes, Lessor reserves the right, at Lessor's option, to estimate the current Real Property Taxes applicable to the Premises, and to require such current year's Real Property Taxes to be paid in advance to Lessor by Lessee, either; (i) in a lump sum amount equal to the installment due, at least twenty (20) days prior to the applicable delinquency date, or (ii) monthly in advance with the payment of the Base Rent. If Lessor elects to require payment monthly in advance, the monthly payment shall be that equal monthly amount which, over the number of months remaining before the month in which the applicable tax installment would become delinquent (and without

interest thereon), would provide a fund large enough to fully discharge before delinquency the estimated installment of taxes to be paid. When the actual amount of the applicable tax bill is known, the amount of such equal monthly advance payment shall be adjusted as required to provide the fund needed to pay the applicable taxes before delinquency. If the amounts paid to Lessor by Lessee under the provisions of this Paragraph are insufficient to discharge the obligations of Lessee to pay such Real Property Taxes as the same become due, Lessee shall pay to Lessor, upon Lessor's demand, such additional sums as are necessary to pay such obligations. All moneys paid to Lessor under this Paragraph may be intermingled with other moneys of Lessor and shall not bear interest. In the event of a Breach by Lessee in the performance of the obligations of Lessee under this Lease, then any balance of funds paid to Lessor under the provisions of this Paragraph may, subject to proration as provided in Paragraph 10.1(a), at the option of Lessor, be treated as an additional Security Deposit Under Paragraph 5.

10.2 Definition of "Real Property Taxes." As used herein, the term "Real Property Taxes" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed upon the Premises by any authority having the direct or indirect power to tax, including any city, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, levied against any legal or equitable interest of Lessor in the Premises or in the real property of which the Premises are a part, Lessor's right to rent or other income therefrom, and/or Lessor's business of leasing the Premises. The term "Real Property Taxes" shall also include any tax, fee, levy, assessment or charge, or any increase therein, imposed by reason of events occurring, or changes in applicable law taking effect, during the term of this Lease. Including but not limited to a change in the ownership of the Premises or in the Improvements thereon, the execution of this Lease, or any modification, amendment or transfer thereof, and whether or not contemplated by the Parties.

10.3 Joint Assessment. if the Premises are not separately assessed. Lessee's liability shall be an equitable proportion or the Real Property Taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations

assigned in the assessor's work sheets or such other information as may be reasonably available. reasonable determination thereof, in good faith, shall be conclusive.

10.4 Personal Property Taxes, Lessee shall pay prior to delinquency all taxes assessed against and levied upon Lessee Owned Alterations, Utility Installations, Trade Fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause its Trade Fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor. If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property or, at Lessor's option, as provided in Paragraph 10.1(b).

11. Utilities. lessee shall contract and pay for all water, gas, heat, light, power, telephone, trash disposal and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to Lessee, Lessee shall pay a reasonable proportion, to be determined by Lessor, of all charges jointly metered with other premises.

12. Lessor's Consent required.

(a) Lessee shall not voluntarily or by operation of law assign, transfer, mortgage or otherwise transfer or encumber (collectively. "assignment") or sublet all or any part of Lessee's interest in this Lease or in the Premises without Lessor's prior written consent given under and subject to the terms of Paragraph 38.

(b) A change in the control of Lessee shall constitute an assignment requiring Lessor's consent. The transfer, on a cumulative basis, of twenty-five percent (25%) or more of the voting control of Lessee shall constitute a change in control for this purpose.

(c) The involvement of Lessee or its assets in any transaction, or series of transactions (by way of merger, sale, acquisition, financing, refinancing, transfer, leveraged buy-out or otherwise). whether or not a formal assignment or hypothecation of this Lease or Lessee's assets occurs, which results or will result in a reduction of the New Worth of Lessee, as hereinafter defined, by an amount equal to or greater than twenty-five percent (25%) of such New Worth of Lessee as it was represented to Lessor at the time of the execution by Lessor of this Lease or at the time of the most recent assignment to which Lessor has consented, or as it exists immediately prior to said Lessor has consented, or as it exists immediately prior to said transaction or transactions consulting such reduction, at whichever time said New Worth of Lessee was or is greater, shall be considered an assignment of this Lease by Lessee to which Lessor may reasonably withhold its consent. "New Worth of Lessee" for purposes of this Lease shall be the net worth of Lessee (excluding any guarantors) established under generally accepted accounting principles consistently applied.

(d) An assignment or subletting of Lessee's Interest in this Lease without Lessor's specific prior written consent shall, at Lessor's option, be a Default curable after notice per Paragraph 13.1(c), or a noncurable Breach without the necessity of any notice and grace period. If Lessor elects to treat such unconsented to assignment or subletting as a noncurable Breach, Lessor shall have the right to either: (i) terminate this Lease, or (ii) upon thirty (30) days written notice ("Lessor's Notice"). Increase the monthly Base Rent to fair market rental value or one hundred ten percent (110%) of the Base Rent then in effect, whichever is greater, Pending determination of the new fair market rental value, if disputed by Lessee, Lessee shall pay the amount set forth in Lessor's Notice, with any overpayment credited against the next installment(s) of Base Rent coming due, and any underpayment for the period retroactively to the effective date of the adjustment being due and payable immediately upon the determination thereof. Further, in the event of such Breach and market value adjustment, (i) the purchase price of any option to purchase the Premises held by Lessee shall be subject to similar adjustment to the then fair market value (without the Lease being considered an encumbrance or any deduction for depreciation or obsolescence, and considering the Premises at its highest and best use and in good condition), or one hundred ten percent (110%) of the price previously in effect, whichever is greater, (ii) any index-oriented rental or price adjustment formulas contained in this Lease shall be adjusted to require that the base index be determined with reference to the index applicable to the time of such adjustment, and (iii) any fixed rental adjustments scheduled during the remainder of the Lease term shall be increased in the same ratio as the new market rental bears to the Base Rent in effect immediately prior to the market value adjustment.

(e) Lessee's remedy for any breach of this Paragraph 12.1 by Lessor shall be limited to compensatory damages and injunctive relief.

12.2 Terms and Conditions Applicable to Assignment and Subletting.

(a) Regardless of Lessor's consent, any assignment or subletting shall not: (i) be effective without the express written assumption by such assignee or sublessee of the obligations of Lessee under this Lease, (ii) release Lessee of any obligations hereunder, or (iii) alter the primary liability of Lessee for the payment of Base Rent and other sums due Lessor hereunder or for the performance of any other obligations to be performed by Lessee under this Lease.

(b) Lessor may accept any rent or performance of Lessee's obligations from any person other than Lessee pending approval or disapproval of an assignment. neither a delay in the approval or disapproval of such assignment nor the acceptance of any rent or performance shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the Default or Breach by lessee of any of the terms, covenants or conditions of this Lease.

(c) The consent of Lessor to any assignment or subletting shall not constitute a consent to any subsequent assignment or subletting by Lessee or to any subsequent or successive assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else

liable on the Lease or sublease and without obtaining their consent, and such action shall not relieve such persons from liability under this Lease or sublease.

(d) In the event of any Default or Breach of Lessee's obligations under this lease, Lessor may proceed directly against Lessee, any Guarantors or any one else responsible for the performance of the Lessee's obligations under this Lease, including the t, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(e) Each request for consent to an assignment or subletting shall be in writing, accompanied by information relevant to Lessor's determination as to the financial and operational responsibility and appropriateness of the proposed assignee or sublessee, including but not limited to the intended use and/or required modification of the Premises, if any, together with a non-refundable deposit of $1,000 or ten percent (10%) of the current monthly Base Rent, whichever is greater, as reasonable consideration for Lessor's considering and processing the request for consent, Lessee agrees to provide Lessor with such other or additional information and/or documentation as may be reasonably requested by Lessor.

(f) Any assignee of, or sublessee under, this Lease shall, by reason of acception such assignment or entering into such sublease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every term, covenant, condition and obligation herein to be observed or performed by Lessee during the term of said assignment or sublease, other than such obligations as are contrary to or inconsistent with provisions of an assignment or sublease to which Lessor has specifically consented in writing.

(g) The occurrence of a transaction described in Paragraph 12.1(c) shall give Lessor the right (but not the obligation) to require that the Security Deposit be increased to an amount equal to six(6) times the ten monthly Base Rent, and Lessor may make the actual receipt by Lessor of the amount required to establish such Security Deposit a condition to Lessor's consent to such transaction.

(h) Lessor, as a condition to giving its consent to any assignment or subletting, may require that the amount and adjustment structure of the rent payable under this Lease be adjusted to what is then the market value and/or adjustment structure for property similar to the Premises as then constituted.

12.3 Additional Terms and Conditions Applicable to subletting. The following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be deemed included in all subleases under this Lease whether or not expressly incorporated therein:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease of all or a portion of the Premises heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a Breach (as defined in Paragraph 13.1) shall occur in the performance of Lessee's obligations under this Lease. Lessee may, except as otherwise provided in this Lease, receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor, nor by reason of the collection of the rents from a sublessee, be deemed liable tot he sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of a written notice from Lessor stating that a Breach Exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents and other charges due and to become due under the sublease. Sublessee shall rely upon any such statement and request from Lessor and shall pay such rents and other charges to Lessor without any obligation or fright to inquire as to whether such Breach exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against said sublessee, or, until the Breach has been cured, against Lessor, for any such rents and other charges so paid by said sublessee to Lessor.

(b) In the event of a Breach by Lessee in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of the sublessor under such sublease from the

time of the exercise of said option to the expiration of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to such sublessor or for any other prior Defaults or Breaches or such sublessor under such sublease.

(c) Any matter or thing requiring the consent of the sublessor under a sublease shall also require the consent of Lessor herein.

(d) no sublessee shall further assign or sublet all or any part of the Premises without Lessor's prior written consent.

(e) Lessor shall deliver a copy of any notice of Default or Breach by Lessee to the sublessee, who shall have the right to cure the Default of Lessee within the grace period, if any, specified in such notice. The sublessee shall have a right of reimbursement and offset from and against Lessee for any such Defaults cured by the sublessee.

13. Default; Breach; Remedies.

13.1 Default; Breach, Lessor and Lessee agree that if an attorney is consulted by Lessor in connection with a Lessee Default or Breach (as hereinafter defined), $1,000.00 is a reasonable minimum sum per such occurrence for legal services and costs in the preparation and service of a notice of Default, and that Lessor may include the cost of such services and costs in said notice as rent due and payable to cure said Default. A "Default" is defined as a failure by the Lessee to observe, comply with or perform any of the terms, covenants, conditions or rules applicable to Lessee under this Lease. A "Breach"

is defined as the occurrence of any one or more of the following Defaults, and, where a grace period to cure after notice is specified herein, the failure by Lessee to cure such Default prior to the expiration of the applicable grace period, shall entitle Lessor to pursue the remedies set forth in Paragraphs 13.2 and/or 13.3:

(a) The vacating of the Premises without the intention to reoccupy same, or the abandonment of the Premises.

(b) Except as expressly otherwise provided in this Lease, the failure by Lessee to make any payment of Base Rent or any other monetary payment required to be made by Lessee hereunder, whether to Lessor or to a third party, as and when due, the failure by Lessee to provide Lessor with reasonable evidence of insurance or surety bond required under this Lease, or the failure of Lessee to fulfill any obligation under this Lease which endangers or threatens life or property, where such failure continues for a period of three (3) days following written notice thereof by or on behalf of Lessor to Lessee.

(c) Except as expressly otherwise provided in this Lease, the failure by Lessee to provide Lessor with reasonable written evidence (in duly executed original form, if applicable) of (i) compliance with Applicable Law per Paragraph 6.3 (ii) the inspection, maintenance and service contracts required under Paragraph 7.1(b), (iii) the recission of an unauthorized assignment or subletting per Paragraph 12.1(b), (iv) a Tenancy Statement per Paragraphs 16 or 37, (v) the subordination or non-subordination of this Lease per Paragraph 30, (vi) the guaranty of the performance of Lessee's obligations under this Lease if required under Paragraphs 1.11 and 37, (vii) the execution of any document requested under Paragraph 42 (easements), or (viii) any other documentation or information which Lessor may reasonably require of Lessee under the terms of this Lease, where any such failure continues for a period of ten (10) days following written notice by or on behalf of Lessor to Lessee.

(d) A Default by Lessee as to the terms, covenants, conditions or provisions of this Lease, or of the rules adopted under Paragraph 40 hereof, that are to be observed, complied with or performed by Lessee, other than those described in subparagraphs (a), (b) or (c) above, where such Default continues for a period of thirty (30) days after written notice thereof by or on behalf of Lessor to Lessee; provided, however, that if the nature of Lessee's Default is such that more than thirty (30) days are reasonably required for its cure, then it shall not be deemed to be a Breach of this Lease by Lessee if Lessee commences such cure within said thirty (30) day period and thereafter diligently

prosecutes such cure to completion. (a) The occurrence of any of the following events: (i) the making by lessee of any general arrangement or assignment for the benefit of creditors; (ii) Lessee's becoming a "debtor" as defined in 11.U.S.C. $101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within sixty (60) days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located a the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within thirty (30) days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within thirty (30) days; provided, however, in the event that any provision of this subparagraph

(e) is contrary to any applicable law, such provision shall be of no force or effect, and not effect the validity of the remaining provisions.

(f) The discovery by Lessor that any financial statement given to Lessor by Lessee or any Guarantor of Lessee's obligations hereunder was materially false.

(g) If the performance of Lessee's obligations under this Lease is guaranteed: (i) the death of a guarantor, (ii) the termination of a guarantor's liability with respect to this Lease other than in accordance with the terms of such guaranty. (iii) a guarantor's becoming insolvent or the subject of a bankruptcy filing, (iv) a guarantor's refusal to honor the guaranty, or (v) a guarantor's breach of its guaranty obligation on an anticipatory breach basis, and Lessee's failure, within sixty (60) days following written notice by or on behalf of Lessor to Lessee of any such event, to provide Lessor with written alternative assurance or security, which when coupled with the then existing resources of Lessee, equals or exceeds the combined financial resources of Lessee and the guarantors that existed at the time of execution of this Lease.

13.2 Remedies. If Lessee fails to perform any affirmative duty or obligation of Lessee under this Lease, within ten (10) days after written notice to Lessee (or in case of an emergency, without notice), Lessor may at its option (but without obligation to do so), perform such duty or obligation on Lessee's behalf, including but not limited to the obtaining of reasonably required bonds, insurance policies, or governmental licenses, permits or approvals. The costs and expenses of any such performance by Lessor shall be due and payable by Lessee to Lessor upon invoice therefor, if any check given to lessor by Lessee shall not be honored by the bank upon which it is drawn, Lessor, at its option, may require all future payments to be made under this Lease by Lessee to be made only by cashier's check. In the event of a breach of this Lease by Lessee, as defined in Paragraph 13.1, with or without further notice or demand, and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such Breach, Lessor may:

(a)Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee; (i) the worth at the time of the award of the unpaid rent which had been earned at the time of termination; (ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that the Lessee proves could have been reasonably avoided; (ii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that the Lessee proves could be reasonably avoided; and (iv) any other amount necessary to compensate Lessor for all the detriment proximately caused by the Lessee's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including but not limited to the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and that portion of the leasing commission paid by Lessor applicable to the unexpired term of this Lease. The worth at the time of award of the amount referred to in provision (iii) of the prior sentence shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time award plus one percent (1%) Efforts by Lessor to mitigate damages caused by lessee's Default or Breach of this lease shall not waive Lessor's right to recover damages under this Paragraph. If termination of this Lease is obtained through the provisional remedy of unlawful detainer, lessor shall have the right to recover in such proceeding the unpaid rent and damages as are recoverable therein, or Lesso

eserve therein the right to recover all or any part thereof in a separate suite for such rent and/or damages. If a notice and grace period required under subparagraphs 13.1,(b), (c) or (d). was not previously given, a notice to pay rent or quit, or to perform or quit, as the case may be, given to Lessee under any statute authorizing the forfeiture of leases for unlawful detainer shall also constitute the applicable notice for grace period purposes required by subparagraphs 13.1(b), (c) or (d), in such case, the applicable grace period under subparagraphs 13.1(b), (c) or (d) and under the unlawful detainer statute shall run concurrently after the one such statutory notice, and the failure of Lessee to cure the Default within the greater of the two such grace periods shall constitute both an unlawful detainer and a Breach of this Lease entitling Lessor to the remedies provided for in this lease and/or by said statute.

(b) Continue the Lease and Lessee's right to possession in effect (in California under California Civil Code Section 1951.4) after Lessee's Breach and abandonment and recover the rent as it becomes due, provided Lessee has the right to sublet or assign, subject only to reasonable limitations. See Paragraphs 12 and 36 for the limitations on assignment and subletting which limitations Lessee and Lessor agree are reasonable. Acts of maintenance or preservation, efforts to relet the Premises, or the appointment of a receiver to protect the Lessor's interest under the Lease, shall not constitute a termination of the Lessee's right to possession.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located.

(d) The expiration or termination of this Lease and/or the termination of Lessee's right to possession shall not relieve Less from liability under any indemnity provisions of this Lease as to matters occurring or accruing during the term hereof or by reason of Lessee's occupancy of the Premises.

13.3 Inducement Recapture in Event Of Breach. Any agreement by Lessor for free or abated rent or other charges applicable to the Premises, or for the giving or paying by Lessor to or for Lessee of any cash or other bonus, inducement or consideration for Lessee's entering into this Lease, all of such concessions are hereinafter referred to as "Inducement Provisions." shall be deemed conditioned upon Lessee's full and faithful performance of all of the terms, covenants and conditions of this Lease to be performed or observed by Lessee during the term hereof as the same may be extended. Upon the occurrence of a Breach of this Lease by Lessee, as defined in Paragraph 13.1, any such inducement Provision shall automatically be deemed deleted from this Lease and of no further force or effect, and any rent, other charge, bonus, inducement or consideration therefore abated, given or paid by Lessor under such an Inducement Provision shall be immediately due and payable by Lessee to Lessor, and recoverable by Lessor as additional rent due under this Lease, notwithstanding any subsequent cure of said Breach by Lessee. the acceptance by Lessor of rent or the cure of the Breach which initiated the operation of this Paragraph shall not be deemed a waiver by Lessor of the provisions of this Paragraph unless specifically so stated in writing by Lessor at the time of such acceptance.

13.4 Late Charges. Lessee hereby acknowledges that late payment by Lessee to lessor of rent and other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed upon Lessor by the terms of any ground lease, mortgage or trust deed covering the Premises. Accordingly, if any installment of rent or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within five (5) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's Default or Breach with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of base rent, then notwithstanding Paragraph 4.1 or any other provision of this Lease to the contrary, Base Rent shall, at Lessor's option, become due and payable quarterly in advance.

13.5 Breach by Lessor. Lessor shall not be deemed in breach of this Lease unless Lessor fails within a reasonable time to perform an obligation required

to be performed by Lessor. For purposes of this Paragraph 13.5, a reasonable time shall in no event be less than thirty (30) days after receipt by Lessor, and by the holders of any ground lease, mortgage or deed of trust covering the Premises whose name and address shall have been furnished Lessee in writing for such purpose, of written notice specifying wherein such obligation of Lessor has not been performed, provided, however, that if the nature of Lessor's obligation is such that more than thirty (30) days after such notice are reasonably required for its performance, then Lessor shall not be in breach of this Lease if performance is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

14. Condemnation. If the Premises or any portion thereof are taken under the power of eminent domain or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes

all or a portion of the Premises are taken by condemnation and Lessee is therefore unable to continue to operate Lessee's business from the Premises title or possession, whichever first occurs. - Lessee may, at Lessee's option, to be exercised in writing within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Leases in accordance with the forgoing, this Lease shall remain in full force and effect as to the portion of the Premises remaining, except that the Base Rent shall be reduced in the same proportion as the rentable floor area of the Premises taken bears to the total rentable floor area of the building located on the Premises. No reduction of Base Rent shall occur if the only portion of the Premises taken is land on which there is no building. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages; provided, however, that Lessee shall be entitled to any compensation separately awarded to Lessee for Lessee's relocation expenses and/or loss of Lessee's Trade Fixtures. in the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of its net severance damages received, over and above the legal and other expenses incurred by Lessor in the condemnation matter, repair any damage to the Premises caused by such condemnation, except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall be responsible for the payment of any amount in excess of such net severance damages required to complete such repair. Lessee waives any and all rights it might otherwise have under Section 1265.130 of the California Code of Civil Procedure to terminate this Lease as a result of any taking.

15. Broker's Fee.

15.1 The Brokers named in Paragraph 1.10 are the procuring causes of this Lease.

15.5 Lessee and Lessor each represent and warrant to the other that it has had no dealings with any person firm, broker or finder (other than the Brokers, if any named in Paragraph 1.10) in connection with the negotiation of this Lease and/or the consummation of the transaction contemplated hereby, and that no broker or other person, firm or entity other than said named Brokers is entitled to any commission or finder's fee in connection with said transaction. Lessee and Lessor do each hereby agree to indemnify, protect, defend and hold the other harmless from and against liability for compensation or charges which may be claimed by any such unnamed broker, finder or other similar party by reason of any dealings or actions of the indemnifying Party, including any costs, expenses, attorneys' fees reasonably incurred with respect thereto.

15.6 Lessor and Lessee hereby consent to approve all agency relationships, including any dual agencies, indicated in Paragraph 1.10.

16. Tenancy Statement.

16.1 Each Party (as "Responding Party") shall within ten (10) day after written notice from the other Party (the "Requesting Party") execute, acknowledge and deliver to the Requesting Party a statement in writing in form attached hereto as Exhibit "D" plus such additional information, confirmation and/or statements as may be reasonably requested by the Requesting Party.

16.2 If Lessor desires to finance, refinance, or sell the Premises, any part thereof, or the building of which the Premises are a part, Lessee and all Guarantors of Lessee's performance hereunder shall deliver to any potential lender or purchaser designated by Lessor such financial statements of Lessee and such Guarantors as may be reasonably required by such lender or purchaser, including but not limited to Lessee's financial statements for the past three (3) years. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

17. Lessor's Liability. The term "Lessor" as used herein shall mean the owner or owners at the time in question of the fee title to the Premises, or, if this is a sublease , of the Lessee's interest in the prior lease. In the event of a transfer of Lessor's title or interest in the Premises or in this Lease, Lessor shall deliver to the transferee or assignee (in cash or by credit) any unused Security Deposit held by Lessor at the time of such transfer or assignment. Except as provided in Paragraph 15, upon such transfer or assignment and delivery of the Security Deposit, as aforesaid, the prior Lessor shall be relieved of all liability with respect to the obligations and/or covenants under this Lease thereafter to be performed by the Lessor. Subject to the foregoing, the obligations and/or covenants in this Lease to be performed by the Lessor shall be binding only upon the Lessor as hereinabove defined.

18. Severability. The invalidity of any provision of this Lease, as determined by a court of competent jurisdiction, shall in no way affect the validity of any other provision hereof.

19. Interest on Past-Due Obligations. Any monetary payment due Lessor hereunder, other than late charges, not received by Lessor within thirty (30) days following the date on which it was due, shall bear interest from the thirty-first (31st) day after it was due at the rate of 12% per annum, but not exceeding the maximum rate allowed by law, in addition to the late charge provided for in Paragraph 13.4.

20. Time of Essence. Time is of the essence with respect to the performance or observed by the Parties under this Lease.

21. Rent Defined. All monetary obligations of Lessee to Lessor under the terms of this Lease are deemed to be rent.

22. No Prior or Other Agreements; Broker Disclaimer. This Lease contains all agreements between the Parties with respect to any matter mentioned herein, and no other prior or contemporaneous agreement or understanding shall be effective. Lessor and Lessee each represents and warrants to the Brokers that it has made, and is relying solely upon, its own investigation as to the nature, quality, character and financial responsibility of the other Party to this Lease and as to the nature, quality and character of the Premises. Brokers have no responsibility with respect thereto or with respect to any default or breach hereof by either Party.

23. Notices.

23.1 All notices required or permitted by this Lease shall be in writing and may be delivered in person (by hand or by messenger or courier service) or may be sent by regular, certified or registered mail or U.S. Postal Service Express Mail, with postage prepaid, or by facsimile transmission, and shall be deemed sufficiently given if served in a manner specified in this Paragraph 23. The addresses noted adjacent to a Party's signature on this Lease shall be that Party's address for delivery or mailing of notice purposes. Either Party may by written notice to the other specify a different address for notice purposes, except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for the purpose of mailing or delivering notices to Lessee. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by written notice to Lessee.

23.2 Any notice sent by registered or certified mail, return receipt requested, shall be deemed given on the date of delivery shown on the receipt card, or if no delivery date is shown, the postmark thereon. If sent by regular mail the notice shall be deemed given forty-eight (48) hours after the same is addressed as required herein and mailed with postage prepaid. Notices delivered by United States Express Mail or overnight courier that guarantees next day delivery shall be deemed given twenty-four (24) hours after delivery of the same to the United States Postal Service or courier. If any notice is transmitted by facsimile transmission or similar means, the same shall be deemed served or delivered upon telephone confirmation of receipt of the transmission thereof, provided a copy is also delivered via delivery or mail. If notice is received on a Sunday or legal holiday, it shall be deemed received on the next business day.

24. Waivers. No waiver by Lessor of the Default or Breach of any term, covenant or condition hereof by Lessee shall be deemed a waiver of any other term, covenant or condition hereof, or of any subsequent Default or Breach by Lessee of the same or of any other term, covenant or condition hereof, Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to, or approval of, any subsequent or similar act by Lessee, or be construed as the basis of an estoppel to enforce the provision or provisions of this Lease required such consent. Regardless of Lessor's knowledge of Default or Breach at the time of accepting rent, the acceptance of rent by Lessor shall not be a waiver of any preceding Default or Breach by Lessee of any provision hereof, other than the failure of Lessee to pay the particular rent so accepted. Any payment given Lessor by Lessee may be accepted by Lessor on account of moneys or damages due Lessor, notwithstanding any qualify statements or conditions made by Lessee in connection therewith, which such statements and/or conditions shall be of no force or effect whatsoever unless specifically agreed to in writing by Lessor at or before the time of deposit of such payment.

25. Recording. Neither Lessor nor Lessee shall record this Lease or a short form memorandum of this Lease.

26. No Right to Holdover. Lessee has no right to retain possession of the Premises or any part thereof beyond the expiration or earlier termination of this Lease. See Addendum.

27. Cumulative Remedies. No remedy or election hereunder shall be deemed exclusive but shall, wherever feasible, be cumulative with all other remedies at law or in equity.

28. Covenants and Conditions. All provisions of this Lease to be observed or performed by Lessee are both covenants and conditions.

29. Binding Effect; Choice of Law. This lease shall be binding upon the parties, their personal representatives, successors and assigns and be governed by the laws of the State in which the Premises are located. Any litigation between the Parties hereto concerning this Lease shall be initiated in the county in which the Premises are located.

30. Subordination; Attornment; Non-Disturbance.

30.1 Subordination. This Lease and any Option granted hereby shall be subject and subordinate to any ground lease, mortgage, deed of trust, or other hypothecation or security device (collectively, "Security Device"), now or hereafter placed by Lessor upon the real property of which the Premises are a part, to any and all advances made on the security thereof, and to all renewals, modifications, consolidations, replacements and extensions thereof. Lessee agrees that the Lenders holding any such Security Device shall have no duty, liability or obligation to perform any of the obligations of Lessor under this Lease, but that in the event of Lessor's default with respect to any such obligation. Lessee will give any Lender whose name and address have been furnished Lessee in writing for such purpose notice of Lessor's default and

allow such Lender thirty (30) days following receipt of such notice for the cure of said default before invoking any remedies Lessee may have by reason thereof. If any Lender shall elect to have this Lease and/or any Option granted hereby superior to the lien of its Security Device and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such Security Device, notwithstanding the relative dates of the documentation or recordation thereof.

30.2 Attornment. Subject to the non-disturbance provisions of Paragraph 30.3, Lessee agrees to attorn to a Lender or any other party who acquires ownership of the Premises by reason of a foreclosure of a Security Device, and that in the event of such foreclosure, such new owner shall not: (i) be liable for any act or omission of any prior lessor or with respect to events occurring prior to acquisition of ownership, (ii) be subject to any offsets or defenses which Lessee might have against any prior lessor, or (iii) be bound by prepayment of more than one (1) month's rent.

30.3 Non-Disturbance. With respect to Security Devices entered into by Lessor after the execution of this Lease, Lessee's subordination of this Lease shall be subject to receiving assurance (a "non-disturbance agreement") from the Lender that Lessee's possession and this Lease, including any options to extend the term hereof, will not be disturbed so long as Lessee is not in Breach hereof and attorns to the record owner of the Premises.

30.4 Self-Executing. The agreements contained in this Paragraph 30 shall be effective without the execution of any further documents; provided, however, that, upon written request from Lessor or a Lender in connection with a sale, financing or refinancing of the Premises, Lessee and Lessor shall execute such further writings as may be reasonably required to separately document any such subordination or non-subordination, attornment and/or non-disturbance agreement as is provided for herein.

31. Attorney's Fees. If any Party brings an action or proceeding to enforce the terms hereof or declare rights hereunder, the Prevailing Party (as hereafter defined) in any such proceeding, action, or appeal thereon, shall be entitled to reasonable attorney's fees. Such fees may be awarded in the same suit or recovered in a separate suit, whether or not such action or proceeding is pursued to decision or judgment. The term, "Prevailing Party" shall include, without limitation, a Party who substantially obtains or defeats the relief sought, as the case may be, whether by compromise, settlement, judgment, or the abandonment by the other Party of its claim or defense. The attorney's fees award shall not be computed in accordance with any court fee schedule, but shall be such as to fully reimburse all attorney's fees reasonably incurred. Lessor shall be entitled to attorney's fees, costs and expenses incurred in the preparation and service of notices of Default and consultations in connection therewith, whether or not a legal action is subsequently commenced in connection with such Default or resulting Breach.

32. Lessor's Access; Showing Premises; Repairs. Lessor and Lessor's agents shall have the right to enter the Premises at any time, in the case of an emergency, and otherwise at reasonable times for the purpose of showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are a part, as Lessor may reasonably deem necessary . Lessor may at any time place on or about the Premises or building any ordinary "For Sale" signs and Lessor may at any time during the last one hundred twenty (120) days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All such activities of Lessor shall be without abatement of rent or liability to Lessee.

33. Auctions. Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard of reasonableness in determining whether to grant such consent.

34. Signs. See addendum.

35. Termination; Merger. Unless specifically stated otherwise in writing by Lessor, the voluntary or other surrender of this Lease by Lessee, the mutual termination or cancellation hereof, or a termination hereof by Lessor for Breach by Lessee, shall automatically terminate any sublease or lesser estate in the Premises; provided, however, Lessor shall, in the event of any such surrender,

termination or cancellation, have the option to continue any one or all of the existing subtenancies. Lessor's failure within ten (10) days following any such event to make a written election to the contrary by written notice to the holder of any such lesser interest, shall constitute Lessor's election to have such event constitute the termination of such interest.

36. Consents.

(a) Except for Paragraph 33 hereof (Auctions) or as otherwise provided herein, wherever in this Lease the consent of a Party is required to an act by or for the other Party, such consent shall not be unreasonably withheld or delayed. Lessor's actual reasonable costs and expenses (including but not limited to architects', attorneys', engineers' or other consultants' fees) incurred in the consideration of, or response to, a request by Lessee for any Lessor consent pertaining to this Lease or the Premises, including but not limited to consents to an assignment, a subletting or the presence or use of a Hazardous Substance, practice or storage tank, shall be paid by Lessee to Lessor upon receipt of an invoice and supporting documentation therefor. Subject to Paragraph 12.2(e) (applicable to assignment or subletting). Lessor may, as a condition to considering any such request by Lessee, require that Lessee deposit with Lessor an amount of money (in addition to the Security Deposit held under Paragraph 5) reasonably calculated by Lessor to represent the cost Lessor will incur in considering and responding to Lessee's request. Except as otherwise provided, any unused portion of said deposit shall be refunded to Lessee without interest. Lessor's consent to any act, assignment of this Lease or subletting of the Premises by Lessee shall not constitute an acknowledgment that no Default or Breach by Lessee of this Lease exists, nor shall such consent be deemed a waiver of any then existing Default or Breach, except as may be otherwise specifically stated in writing by Lessor at the time of such consent.

(b) All conditions to Lessor's consent authorized by this Lease are acknowledged by Lessee as being reasonable. The failure to specify herein any particular condition to Lessor's consent shall not preclude the imposition by Lessor at the time of consent of such further or other conditions as are then reasonable with reference to the particular matter for which consent is being given.

37. Guarantor.

37.1 If there are to be any Guarantors of this Lease per Paragraph .11, the form of the guaranty to be executed by each such Guarantor shall be in the form provided by Lessor and each said Guarantor shall have the same obligations as Lessee under this Lease, including but not limited to the obligation to provide the Tenancy Statement and information called for by Paragraph 16.

37.2 It shall constitute a Default of the Lessee under this Lease if any such Guarantor fails or refuses, upon reasonable request by Lessor to give: (a) evidence of the due execution of the guaranty called for by this Lease, including the authority of the Guarantor (and of the party signing on Guarantor's behalf) to obligate such Guarantor on said guaranty, and including in the case of a corporate Guarantor, a certified copy of a resolution of its boar do directors authorizing the making of such guaranty, together with a certificate of incumbency showing the signature of the persons authorized to sign on its behalf, (b) current financial statements of Guarantor as may from time to time be requested by Lessor, (c) a Tenancy Statement, or (d) written confirmation that the guaranty is still in effect.

38. Quiet Possession. Upon payment by Lessee of the rent for the Premises and the observance and performance of all of the covenants, conditions and provisions on Lessee's part to be observed and performed under this Lease, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease.

39. Options.

39.1 Definition. As used in this Paragraph 39 the word "Option" has the following meaning: (a) the right to extend the term of this Lease or to renew this Lease of to extend or renew any lease that Lessee has on other property of Lessor; (b) the right of first refusal to lease the Premises or the right of first offer to lease the Premises or the right of first refusal to lease other property of Lessor or the right of first offer to lease other property of Lessor; (c) the right to purchase the Premises, or the right of first refusal to purchase the Premises, or the right of first offer to purchase

the Premises, or the right to purchase other property of Lessor, or the right of first refusal to purchase other property of Lessor, or the right of first offer to purchase other property of Lessor.

39.2. Options Personal To Original Lessee. Each Option granted to Lessee in this Lease is personal to the original Lessee named in Paragraph 1.1 hereof, and cannot be voluntarily or involuntarily assigned or exercised by any person or entity other than said original Lessee while the original Lessee is in full and actual possession of the Premises and without the intention or thereafter assigning or subletting. The Options, if any, herein granted to Lessee are not assignable, either as a part of an assignment of this Lease or separately or apart therefrom, and no Option may be separated from this Lease in any manner, by reservation or otherwise.

39.3 Multiple Options. In the event that Lessee has any Multiple Options to extend or renew this Lease a later Option cannot be exercised unless prior Options to extend or renew this Lease have been validly exercised.

39.4 Effect of Default on Options

(a) Lessee shall have no right to exercise an Option, notwithstanding any provision in the grant of Option to the contrary: (i) during the period commencing with the giving of any notice of Default under Paragraph 13.1 and continuing until the noticed Default is cured, or (ii) during the period of time any monetary obligation due Lessor from Lessee is unpaid (without regard to whether notice thereof is given Lessee), or (iii) during the time Lessee is in Breach of this Lease, or (iv) in the event that Lessor have given to Lessee three (3) or more notices of Default under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, during the twelve (12) month period immediately preceding the exercise of the Option.

(b) The period of time within which an Option may be exercised shall not be extended or enlarged by reason of Lessee" inability to exercise an Option because of the provisions of Paragraph 39.4(a).

(c) All rights of Lessee under the provisions of an Option shall terminate and be of no further force or effect, notwithstanding Lessee's due and timely exercise of the Option, if, after such exercise and during the term of this Lease, (i) Lessee fails to pay to Lessor a monetary obligation of Lessee for a period of thirty (30) days after such obligation becomes due (without any necessity of Lessor to give notice thereof to Lessee), or (ii) Lessor gives to Lessee three (3) or more notices of Default under Paragraph 13.1 during any twelve (12) month period, whether or not the Defaults are cured, or (iii) if Lessee commits a Breach of this Lease.

40. Multiple Buildings. If the Premises are part of a group of buildings controlled by Lessor, Lessee agrees that it will abide by, keep and observe all reasonable rules and regulations which Lessor may make from time to time for the management, safety, care, and cleanliness of the grounds, the parking and unloading of vehicles and the preservation of good order, as well as for the convenience of other occupants or tenant of such other buildings and their invitees, and that Lessee will pay its fair share of common expenses incurred in connection therewith.

41. Security Measures. Lessee hereby acknowledges that the rental payable hereunder does not include the cost of guard service or other security measures, and that Lessor shall have no obligation whatsoever to provide same. Lessee assumes all responsibility for the protection of the Premises, Lessee, its agents and invitees and their property from the acts of third parties.

42. Reservations. Lessor reserves to itself the right, from time to time, to grant, without the consent or joinder of Lessee, such easements, rights, dedications, maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee and do not materially impede Lessee's access to and from the Premises and do not reduce Lessee's parking capacity to less than four (4) spaces per 1000 square feet of the Premises. Lessee agrees to sign within five (5) days of request, any documents reasonably requested by Lessor to effectuate any such easement rights, dedication, map or restrictions.

43. Performance Under Protest. If at any time a dispute shall arise as to any amount or sum of money to be paid by one Party to the other under the provisions

hereof, the Party against whom the obligation to pay the money is asserted shall have the right to make payment "under protest" and such payment shall not be regarded as a voluntary payment and there shall survive the right on the part of said Party to institute suit for recovery of such sum. If it shall be adjudged that there was no legal obligation on the part of said Party to pay such sum or any part thereof, said Party shall be entitled to recover such sum or so much thereof as it was not legally required to pay under the provisions of this Lease.

44. Authority. If either Party hereto is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on its behalf. If Lessee is a corporation, trust of partnership, Lessee shall, within thirty (30) days after request by Lessor, deliver to Lessor evidence satisfactory to Lessor of such authority.

45. Conflict. Any conflict between the printed provisions of this Lease and the typewritten or handwritten provisions shall be controlled by the typewritten or handwritten provisions.

46. Offer. Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer of lease to Lessee. This Lease is not intended to be binding until executed by all Parties hereto.

47. Amendments. This Lease may be modified only in writing, signed by the Parties in interest at the time of the modification. The parties shall amend this Lease from time to time to reflect any adjustments that are made to the Base Rent or other rent payable under this Lease. As long as they do not materially change Lessee's obligations hereunder, Lessee agrees to make such reasonable non-monetary modifications to this Lease as may be reasonably required by an institutional, insurance company, or pension plan Lender in connection with the obtaining of normal financing or refinancing of the property of which the Premises are a part.

48. Multiple Parties. Except as otherwise expressly provided herein, if more than one person or entity is named herein as either Lessor or Lessee, the obligations of such Multiple Parties shall be the joint and several responsibility of all persons or entities named herein as such Lessor or Lessee.

LESSOR AND LESSEE HAVE CAREFULLY READ AND REVIEWED THIS LEASE AND EACH TERM AND PROVISION CONTAINED HEREIN, AND BY THE EXECUTION OF THIS LEASE SHOW THEIR INFORMED AND VOLUNTARY CONSENT THERETO. THE PARTIES HEREBY AGREE THAT, AT THE TIME THIS LEASE IS EXECUTED, THE TERMS OF THIS LEASE ARE COMMERCIALLY REASONABLE AND EFFECTUATE THE INTENT AND PURPOSE OF LESSOR AND LESSEE WITH RESPECT TO THE PREMISES.

IF THIS LEASE HAS BEEN FILLED IN, IT HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR HIS APPROVAL. FURTHER, EXPERTS SHOULD BE CONSULTED TO EVALUATE THE CONDITION OF THE PROPERTY AS TO THE POSSIBLE PRESENCE OF ASBESTOS. STORAGE TANKS OR HAZARDOUS SUBSTANCES. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER(S) OR THEIR AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES OF THIS LEASE OR THE TRANSACTION TO WHICH IT RELATES; THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE. IF THE SUBJECT PROPERTY IS LOCATED IN A STATE OTHER THAN CALIFORNIA, AN ATTORNEY FROM THE STATE WHERE THE PROPERTY IS LOCATED SHOULD BE CONSULTED.

The parties hereto have executed this Lease at the place on the dates specified above to their respective signatures.

Executed at Garden Grove
on 7/11/95
by LESSOR:
TR BRELL CAL CORP,
An Illinois corporation
By: KOLL MANAGEMENT SERVICES, INC.
A Delaware corporation, its agent

By: /s/
Name Printed: Julie Groot
Title: Senior Manager

Executed at Garden Grove, CA
on 5/26/95
by LESSEE:
SOURCE SCIENTIFIC, INC.
A California corporation

By: /s/
Name Printed: Richard A. Sullivan
Title: President and CEO

By: /s/ By:
Name Printed: Michael E. Meyer Name Printed:
Title: Vice President Title:
Address: 12832 Valley View Street, Address: 7390 Lincoln Way
Suite 106
Garden Grove, CA 92645 Garden Grove, CA 92641
Tel. No. (714)891-0707 Tel. No.(714)898-9001
Fax No. (714)895-5553 Fax No. (714)891-1229

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NOTICE: These forms are often modified to meet changing requirements of law and industry needs. Always write or call to make sure you are utilizing the most current form: American Industrial Real Estate Association, 345 South Figueroa Street, Suite M-1, Los Angeles, CA 90071. (213)687-8777. Fax No. (213)687-8616.

ADDENDUM TO STANDARD
INDUSTRIAL/COMMERICAL SINGLE-TENANT LEASE (NET)
BY AND BETWEEN
TR BRELL, CAL CORP, AN ILLINOIS CORPORATION ("LESSOR"),
AND
SOURCE SCIENTIFIC SYSTEMS, INC., A DELAWARE CORPORATION ("LESSEE")

The promises, convenants agreements and declarations made and set forth herein are intended to and shall have the same force and effect as if set forth at length in the body of the Lease to which this Addendum is attached (the "Lease"). To the extent that the provisions of this Addendum are inconsistent with the terms and conditions of the Lease, the terms of this Addendum shall control.

48(a). Paragraph 1.7 (Security Deposit). Lessor acknowledges that Lessor presently holds the Security Deposit referenced in Paragraph 1.7 under Lessee's existing lease which wil continue to be held by Lessor pursuant to the terms of this Lease.

49. Paragraph 4.1(Base Rent). The Base Rent shall be increased effective as of August 1, 1997 to $29,131 per month and increased again effective as of February 1, 2000 to $32,460.00. Lessor hereby grants Lessee six (6) months of one-half (1/2) rent for the months of February through July of 1995.

50. Paragraph 6.1(Use). The following is hereby added to paragraph 6.1.

"Lessee shall not do anything or suffer anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or other governmental rule, regulation or requirement now in force or which may hereafter be enacted or promulgated. Should any standard or regulation now or hereafter be imposed on Lessor or Lessee by a State, federal or local governmental body charged with the establishment, regulation and enforcement of occupational, health or safety standards for employers, employees, lessors or lessees, then, except as otherwise specifically set forth in the Lease, Lessee agrees, at its sole cost and expense, to comply promptly with such standards or regulations."

51. Paragraph 6.3(Lessee's Compliance with Law). The following language is hereby added to Paragraph 6.3:

"In addition to the general obligation of Lessee to comply with laws and without limitation thereof, Lessee shall comply in all respects with the

Title III of the Americans with Disabilities Act of 1990 (the "ADA") as respects Lessee's use of, or alteration to, the Premises and Lessor shall not be liable to Lessee, nor shall this Lease be affected in any way, by reason of any moratorium, initiative, referendum, statute, regulation or other governmental decree or action which could in any manner prevent or limit the parking rights of Lessee hereunder. Any governmental charges or surcharges or other monetary obligations imposed relative to parking rights with respect to the Premises shall be considered assessments and shall be responsible for compliance with the ADA if it is required with respect to the exterior of the Premises or the structure of the Building, and such compliance does not relate to Lessee's specific use of the Premises."

52. Paragraph 7.1(Lessee's Obligations);Paragraph 7.2(Lessor's Obligations). In connection with Paragraph 7.1 of the Lease, all repairs and maintenance of the Premises by Lessee as required under the Lease shall be performed in a first class manner by contractors and other personnel reasonably approved by Lessor, shall be performed in accordance with a repair and maintenance plan reasonably approved by Lessor, and shall comply with guidelines and shall meet such standards of quality as may be reasonably established by Lessor from time to time during the Term of the Lease, including, without limitation, providing Lessor with copies of all permits obtained by Lessee and "as-built" drawings of such work performed by Lessee. In the

event Lessor determines, at any time during the term of the Lease, that Lessee's repair and maintenance of the Premises is not meeting the standards therefor established by Lessor, then Lessor may, but shall not be obligated to, undertake such repair and maintenance obligations of Lessee on behalf of Lessee, and all costs and expenses incurred by Lessor in the performance of such repair and maintenance shall constitute additional rent under this Lease, and shall be payable by Lessee to Lessor within five (5) days of demand.

Notwithstanding anything to the contrary contained in Paragraphs 7.1 or 7.2, in addition to Monthly Base Rent, throughout the Term of this Lease, Lessee agrees to pay Lessor as additional rent in accordance with the terms of this Paragraph certain operating expenses of the Building ("Operating Expenses") consisting of all Real Property Taxes pursuant to Paragraph 10 of the Lease, the cost of all insurance premiums for property and liability insurance maintained by Lessor pursuant to Paragraph 8 of the Lease, and costs and expenses incurred by Lessor with respect to landscaping, repair and maintenance of the Building exterior, and other exterior portions of the Premises, parking areas, including resurfacing, repairing and restriping, walkways, sanitary sewer costs, and trash disposal, including costs and maintenance of refuse receptacles, costs of repair and replacement of directional signs and markers, car stops, exterior lighting and other utilities, reasonable depreciation on improvements, machinery, and equipment used in connection with such maintenance and any other costs and expenses incurred by Lessor with respect to the maintenance and repair of the Building and exterior portions of the Premises.

(a) Estimate Statement. On or about March 1st of each calendar year during the Term of this Lease, Lessor will endeavor to deliver to Lessee a statement ("Estimate Statement") wherein Lessor will estimate the Operating Expenses of the then current calendar year. Lessee agrees to pay Lessor, as "Additional Rent", one-twelfth (1/12th) of such Operating Expenses each month thereafter, beginning with the next installment of rent due, until such time as Lessor issues a revised Estimate Statement or the Estimate Statement for the succeeding calendar year, except that, concurrently with the regular monthly rent payments next due following the receipt of each such Estimate Statement, Lessee agrees to pay Lessor an amount equal to one monthly installment of such Operating Expenses (less any applicable Operating Expenses already paid) multiplied by the number of months from January, in the current calendar year, to the month of such rent payment next due, all months inclusive. If at any time during the Term of the Lease, but not more often than quarterly, Lessor reasonably determines that Operating Expenses for the current calendar year will be greater than the amount set forth in the then current Estimate Statement, Lessor may issue a revised Estimate Statement and Lessee agrees to pay Lessor, within ten (10) days of

receipt of the revised Estimate Statement, the difference between the amount owed by Lessee under such revised Estimate Statement and the amount owed by Lessee under the original Estimate Statement for the portion of the then current calendar year which has expired. Thereafter Lessee agrees to pay Operating Expenses based on such revised Estimate Statement until Lessee receives the next calendar year's Estimate Statement or a new revised Estimate Statement for the current calendar year.

(b) Actual Statement. By March 1st of each calendar year during the Term of this Lease, Lessor will also endeavor to deliver to Lessee a statement ("Actual Statement") which states the actual Operating Expenses for the preceding calendar year. If the Actual Statement reveals that actual Operating Expenses are more than the total Additional Rent paid by Lessee for Operating Expenses on account of the preceding calendar year, Lessee agrees to pay Lessor the difference in a lump sum within ten (10) days of receipt of the Actual Statement. If the Actual Statement reveals that actual Operating Expenses are less than the Additional Rent paid by Lessee for Operating Expenses on account of the preceding calendar year, Lessor will credit any overpayment toward the next monthly installment(s) of Operating Expenses due under this Lease.

Notwithstanding anything to the contrary contained in Paragraphs 7.1 or 7.2, Lessee agrees to maintain and repair the roof of the Building, at Lessee's sole cost and expense. If the roof needs to be replaced (as determined below), Lessor shall cause such work to be performed, but Lessee shall be responsible for reimbursing Lessor for a portion of the cost ("Replacement Cost") incurred by Lessor for replacing the roof with a roof of a quality consistent with the structure and quality of the Building and which is full warranted for a minimum of 15

years, based on the following schedule: (i) if the roof is replaced during months 1 through 28 of the new Term, then Lessee shall be responsible for 25% of the Replacement Cost, or (ii) if the roof is replaced during 29 through 56 of the new Term, then Lessee shall be responsible for 45% of the Replacement Cost, or (iii) if the roof is replaced during months 57 through 84 of the new Term, then Lessee shall be responsible for 65% of the Replacement Cost. The roof will "need" to be replaced if two independent roofing consultants, one selected by Lessor and the other selected by Lessee, advise Lessor that replacement of the roof is recommended over further repair in order for the roof to function properly. If a third roofing consultant is necessary because of disagreement in the need for roof replacement between the first two consultants, then Lessor and Lessee shall cause their respective consultants to agree upon and mutually select a third roofing consultant whose determination shall be conclusive. If the roof needs to be replaced because of damage caused by Lessee or its agents, employees, contractors or invitees, then Lessee will be responsible for the entire Replacement Cost. Lessee shall pay its share of the Replacement Cost concurrently with Lessor's payment of the balance of the Replacement Cost in accordance with the terms of Lessor's contract with the roof installation company.

53. Paragraph 7.3(Utility Installations; Trade Fixtures; Alterations). The following is added to Paragraph 7.3 of the Lease.

"(d) Security. In connection with Paragraph 7.3 of the Lease, Lessee shall, at Lessee's sole cost and expense, take such security measures as Lessee deems appropriate or necessary in order to secure the Premises and portions thereof in accordance with such requirements as may be imposed by contractors of Lessee; provided, however, in the event any such security measures require any alterations of or additions to the Premises, any such alterations and/or additions shall be subject to the terms of Paragraphs 7.3 and 7.4 of the Lease."

54. Paragraph 8.2(Liability Insurance). Paragraph 8.2(a) of the Lease has been intentionally omitted, and is hereby replaced with the following:

"(a) Carried by Lessee. Lessee agrees, at its own expense, to maintain in full force and effect at all times during the term of this Lease, as it may be extended for the protection of Lessee and Lessor, as their interests may appear, policies of insurance issued by a carrier or carriers acceptable to Lessor and with a rating consistent with the requirements of Paragraph 8.5 of the Lease, which afford the following coverages: (i) Worker's compensation: statutory limits; (ii) Employer's liability: not less than Five Hundred Thousand Dollars ($500,000.00); (iii) Comprehensive general liability insurance including blanket contractual liability, broad form property damage, personal injury (including employees), owned/non-owned auto liability, pollution and hazardous materials liability, completed operations, products liability, and fire damage: not less than Three Million Dollars ($3,000,000.00) with a combined single limit for both bodily injury and property damage and naming Lessor, Lessor's agents and Lessor's mortgagees as additional insureds as their respective interests may appear; (iv) except to the extent covered by the insurance for the Premises and leasehold improvements required to be carried by the Insuring Party under Paragraph 8.3(a) of the Lease, "All Risk" property insurance (including, without limitation, vandalism, malicious mischief, water damage, earthquake, damage from pollution and hazardous materials, course of construction endorsement, sprinkler leakage endorsement, debris removal and demolition coverage, and boiler and machinery coverage) on the Premises and the leasehold improvements, Utility Installations, Alterations, Trade Fixtures, and Lessee's personal property located on or in the Premises, which shall be in a form providing coverage comparable to the coverage provided in the standard ISO All-Risk form and in an amount equal to the full amount of the replacement cost of the insured items, as the same may from time to time increase as a result of inflation or and (v) boiler and machinery insurance, including, but not limited to, steam pipes, pressure pipes, condensation return pipes and other pressure vessels and HVAC equipment, with limits per accident of not less than the replacement cost of all leasehold improvements, Utility Installments (except to the extent covered by the insurance for the Premises and leasehold improvements required to be carried by the Insuring Party under

Paragraph 8.3(a) of the Lease), Alterations, Trade Fixtures, and Lessee's personal property and all boilers, pressure valves, HVAC equipment and miscellaneous electrical and mechanical equipment in the Premises, all with deductibles not to exceed $1,000.00 per occurrence. The insurance policies set forth above shall not contain any intra-insured exclusions as between insured persons or organizations, but shall include coverage for liability assumed under Lease as in "insured contract" for the performance of Lessee's indemnity obligations under the Lease. The limits of said insurance required by the Lease or as carried by Lessee shall, not however, limit the liability of Lessee nor relieve Lessee of any obligation hereunder. All insurance to be carried by Lessee shall be primary to and not contributory with any similar insurance carried by Lessor whose insurance shall be considered excess insurance only."

55. Paragraph 9 (Damage or Destruction). The following definitions shall apply for purposes of Paragraph 9.1(a) and 9.1(b).

(a) "Premises Partial Damage" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations, the repair time for which, as reasonably determined by Lessor, will not exceed one hundred eighty (180) days

(b) "Premises Total Destruction" shall mean damage or destruction to the Premises, other than Lessee Owned Alterations and Utility Installations, the repair time for which, as reasonably determined by Lessor, will not exceed one hundred eighty (180) days.

Notwithstanding anything to the contrary set forth in Paragraph 9 of the Lease, Lessee hereby waives the provisions of California Civil Code Sections 1932 and 1933, and any successor sections and any other statues which

are inconsistent with the provisions of Lease and which relate to the termination of leases when leased property is destroyed, and agree that such event shall be governed by the terms of the Lease.

56. Paragraph 13.2 (Remedies). The following language is hereby added to Paragraph 13.2:

"(e) Re-enter the Premises at its option without declaring the Lease term ended, and re-let the whole or any part thereof for the account of Lessee, on such terms and conditions and at such rent as Lessor may deem proper, collecting such rent and applying it on the amount due from Lessee hereunder and on the expense of such relating and on any other damage or expense so sustained by Lessor, or on any such item or items, recovering from Lessee the difference between the proceeds of such re-letting and the amount of the rentals reserved hereunder, and any such damage or expense from time to time, which said sum Lessee agrees to pay upon demand. Lessor shall not, by any re-entry or other act, be deemed to have terminated this Lease or the liability of Lessee for the total rental hereunder(net of re-let recovery as specified above), or any installment thereof then due or thereafter accruing, or for damages, unless Lessor shall notify Lessee, in writing, that Lessor has so elected to terminate the Lease."

57. Paragraph 17 (Lessor's Liability). The following is added to Paragraph 17:

"Lessee acknowledges and agrees that the obligations of Lessor under this Lease do not constitute personal obligations of the individual partners, directors, officers or shareholders of Lessor, and Lessee shall look to the real estate that is the subject of this Lease and to any insurance proceeds received from insurance policies required to be carried under this Lease, and to no other assets of Lessor for the satisfaction of any liability with respect to this Lease, and will not seek recourse against the individual partners, directors, officers or shareholders of Lessor or any of their personal assets for such satisfaction."

58. Paragraph 24 (Waivers). The following language is hereby added to Paragraph 24:

"No payment by Lessee or receipt by Lessor of a lesser amount than the fixed rent payment herein stipulated shall be deemed to be other than on account of the earliest stipulated rent, nor shall any endorsement or statement on any check or any letter accompanying any check or any payment as rent be deemed an accord and satisfaction, and Lessor may accept such check or payment without prejudice to Lessor's right to recover the balance of such rent or pursue any other remedy in this Lease provided."

59. Paragraph 26 (Holding Over). The following language is hereby added to Paragraph 26:

"If Lessee remains in possession of all or any part of the Premises after the expiration of the Term of the Lease without Lessor's written consent (which may be withheld at Lessor's sole and absolute discretion), Lessee shall become a Lessee at sufferance only and such tendency shall not constitute a renewal or extension for any further term. In such event, Base Rent shall be increased to an amount equal to one hundred fifty percent(150%) of the Base Rent payable during the last month of the Term, and any other sums due hereunder shall be payable in the amount of the terms specified in this Lease. Such tenancy shall be subject to every other term, condition, and covenant contained herein. The foregoing provisions of this Paragraph 26 are in addition to and do not affect any rights of Lessor under the Lease or as otherwise provided by law. If Lessee fails to surrender the Premises upon the expiration of this Lease despite the demand to do so by Lessor, Lessee shall indemnify and hold Lessor harmless from all loss or liability

including, without limitation, any claim made by any succeeding lessee founded on or resulting from such failure to surrender."

60. Paragraph 30 (Subordination; Attornment ; Non-Disbursement.) With respect to Paragraph 30 of the Lease, neither Lessor nor Lessee shall unreasonably withold its consent to changes or amendments to the Lease requested by any Lender of Lessor having a security interest in the Premises or the Lease, so long as the changes do not alter the basic business terms of the Lease or otherwise materially diminish any rights or materially increase any obligation of the party from who consent to such change or amendment is requested. Notwithstanding any contrary provision of Paragraph 30.1 of the Lease, Lessee agrees to send by certified mail to any Lender whose address has been furnished to Lessee, a copy of any notice of default served by Lessee on Lessor, and if Lessor fails to cure such default within the time provided for in the Lease, such Lenders shall have an additional thirty (30) days to cure such default; provided however, that if such default cannot reasonably be cured within such thirty (30) day period, then such Lenders shall have such additional time to cure the default as is reasonably necessary under the circumstances, provided such Lenders commence the cure of such default within said thirty (30) day period and diligently pursue the same to completion.

60(a.) Paragraph 34 (Signs). Lessee will have no right to install or maintain any Lessee identification signs (or any other signs, banners or other such displays) upon the Premises which may be visible from the exterior of the Premises, except as (I) have been expressly approved by Lessor prior to the installation thereof, and (ii) are consistent and compatible with (A) the restrictions contained in this Paragraph 60(a), (B) all governmental regulations and requirements, (C) rules and regulations from time to time promulgated by Lessor with respect to the Building, a current copy of which is attached hereto as Exhibit "B", and (D) all private covenants and restrictions now or hereafter of record affecting the Premises. All approved signs (the "Building Sign") if any must be maintained, at the sole cost and expense of Lessee, pursuant to a maintenance program approved and supervised by Lessor. Upon expiration of earlier termination of the Lease, Lessee, at Lessee's sole cost and expense (subject to Lessor's supervision), will cause the Builiding Sign to be removed and the Building to be restored to condition existing prior to the placement of such sign. If Lessee fails to remove such sign and restore the Building as provided above within thirty (30) days following Lessor's demand therefor, then Lessor may perform such work and all costs and expenses incurred by Lessor in so performing such work will be reimbursed by Lessee to L4essor within ten (10) days following Lessor's delivery to Lessee of an invoice therefor. The sign rights herein above provided are personal to the original Lessee executing this Lease and may not be assigned or transferred to, or utilized by, any other person or entity.

61. Net Lease. This Lease shall be deemed and construed to be a "net lease" and except as herein otherwise expressly set forth Lessee shall pay to Lessor, absolutely net throughout the Term of this Lease, the Base Rent (as adjusted persuant to Subparagraph 48(b) above), additional rent and other payments hereunder, without abatement or set off.

62. Option to Extend Term: Lessor hereby grants to Lessee one (1) option ("Option to Extend") to extend the Term of this Lease for a period of five (5) years ('Option Term"). The Option must be exercised if at all by written notice ("Option to Extend Notice") delivered by Lessee to Lessor not earlier than one hundred eighty (180) days nor later than ninety (90) days prior to the end of the initial five (5) year Term. Further, the Option to Extend shall not be deemed to be properl7y exercised if, as of the date of the Option Notice and at the end of the initial (5) year Term, Lessee is in default under the Lease. In the event the initial five (5) year Term shall be extended as provided in this Paragraph 62, then all of the terms, covenants and conditions of the Lease shall remain unmodified and in full force and effect, except for payment of Monthly Basic Rent. Monthly Basic Rent shall be adjusted as of the commencement date of the Option Term in accordance with the "fair market rental rate" for the Premises determined as follows.

(a) The term "fair market rental rate" as used

herein will mean the annual amount per rentable square foot, projected during the relevant period, that a willing, comparable, non-equity tenant (excluding sublease and assignment transactions) would pay, and a willing comparable landlord of a comparable industrial building located in the vicinity of the Building would accept, at arm's length (what Lessor is accepting in current transactions for the Building may be considered), for space of comparable size, quality and floor height as the leased area at issue taking into account the age, quality and layout of the existing improvements in the lease area at issue and taking into account items that professional real estate brokers customarily consider, including, but not limited to rental rates, space availability, tenant size, tenant improvement allowances, operating expenses, reduced rent, free rent and any other lease concessions, if any, then being charged or granted by Lessor or the lessors of such similar buildings. The fair market rental rate will be an effective rate, not specifically including, but accounting for appropriate economic concessions described above.

(b) If a determination of fair market rental rate is required under this Lease, then Lessor will provide written notice of Lessor's determination of the fair market rental rate not later than thirty (30) days after the date upon which Lessee timely exercises the right giving rise to necessity for such fair market rental rate determination. Lessee will have thirty (30) days (Lessee's Review Period") after receipt of Lessor's notice of the fair market rental rate within which to accept such fair market rental rate or to reasonably object thereto in writing. Lessee's failure to object to the fair market rental rate submitted by Lessor in writing within Lessee's Review Period, Lessor and Lessee will attempt in good faith to agree upon such fair market rental rate using their best good faith efforts. If Lessor and Lessee fail to reach an agreement on such fair market rental rate within fifteen (15) days following the expiration of Lessee's Review Period (the "Outside Agreement Date"), then each party's determination will be submitted to appraisal in accordance with the provisions below.

(c) (i) Lessor and Lessee will each appoint one (1) independent appraiser who by profession must be a real estate broker who has been active over the five (5) year period ending on the date of such appointment in the leasing of industrial properties located in the vicinity of the Building. The determination of the appraisers will be limited solely to the issue of whether Lessor's or Lessee's submitted fair market rental rate for the leased area at issue is the closest to the actual fair market rental rate for such area as determined by appraisers, taking into account the requirements specified in Subparagraphs (a) and (b) above. Each such appraiser will be appointed within fifteen (15) days after the Outside Agreement Date.

(ii) The two (2) appraisers so appointed well within fifteen (15) days of the date of the appointment of the last appointed appraiser agree upon and appoint a third appraiser who shall be qualified under the same criteria set forth hereinabove for qualification of the initial two (2) appraisers.

(iii) The three (3) appraisers will within thirty (30) days of the appointment of the third appraiser reach a decision as to whether the parties will use Lessor's or Lessee's submitted fair market rental rate, and will notify Lessor and Lessee thereof.

(iv) The decision of the majority of the three (3) appraisers will be binding upon Lessor and Lessee. If either Lessor or Lessee fails to appoint an appraiser within the time period specified in Subparagraph (c)(I) hereinabove, the appraiser appointed by one of them will, within thirty (30) days following the date on which the party failing to appoint an appraiser could have last appointed such appraiser, reach a decision based upon the procedures

set forth above (i.e., by selecting either Lessor's or Lessee's submitted fair market rental rate) and notify Lessor and Lessee thereof, and such appraiser's decision will be binding upon Lessor and Lessee.

(v) If the two (2) appraisers fail to agree upon and timely appoint a third appraiser, both appraisers will be dismissed and the matter to be decided will be forthwith submitted to arbitration under the provisions of the American Arbitration Association based upon the procedures set forth above (i.e., by selecting either Lessor's or Lessee's submitted fair market rental rate).

(vi) The cost of appraisal (and, if necessary, arbitration) will be shared by Lessor and Lessee equally.

(vii) If the process described in Subparagraph (b) above and this Subparagraph (c) has not resulted in a selection of Lessor's and Lessee's fair market rental rate by the commencement of the applicable lease term, then the fair market rental rate estimated by Lessor will be used until the appraiser(s) reach a decision, with an appropriate rental credit and other adjustments for any overpayments of Monthly Base Rent or other amounts if the appraisers select Lessee's estimate of the fair market rental rate.

63. Tenant Improvements. Lessor shall install, at Lessor's sole cost and expense. (i) one hundred and twenty (120) square yards of Oxford Place carpet (with static control), over a new 3/8" commercial pad, throughout the reception, stairway and top landing area only, and (ii) a 4" Roppe base.

64. Miscellaneous.

64.1 Waiver of Trial By Jury. IN ANY ACTION OR PROCEEDING ARISING HEREFROM, LESSEE HERBY CONSENTS TO (I) THE JURISDICTION OF ANY COMPETENT COURT WITHIN THE STATE OF CALIFORNIA, (II) SERVICE OF PROCESS BY ANY MEANS AUTHORIZED BY CALIFORNIA LAW, AND (III) IN THE INTEREST OF SAVING TIME AND EXPENSE, TRIAL WITHOUT A JURY.

64.2 Rules and Regulations. Lessee shall faithfully observe and comply with the rules and regulations that Lessor shall from time to time promulgate. Lessor reserves the right from time to time in its discretion to make all reasonable additions and modifications to the rules and regulations. Any additions and modifications to the rules and regulations shall be binding on Lessee when delivered to Lessee. Lessor's current rules and regulations are attached hereto as Exhibit B.

IN WITNESS WHEREOF, the parties have executed this Addendum as of the day and year of execution of the Lease.

"LESSOR" TR BRELL, CAL CORP,
an Illinois corporation

By: Koll Management Services, Inc.
a Delaware corporation, Its
authorized agent

By:_____
Name_____
Title_____

"LESSEE" SOURCE SCIENTIFIC, INC.
a California corporation

By:_____
Its:_____