FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

INTELLIGENT CONTROLS INC

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SIC: **3825** Instruments for meas & testing of electricity & elec signals

Mailing Address
PO BOX 638
SACO ME 04072

Business Address
74 INDUSTRIAL PARK ROAD
SACO ME 04072
2072830156

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U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended December 26, 1998

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934. For the transition period from _________ to _________

Commission File No.
1-13628

INTELLIGENT CONTROLS, INC.
(Name of small business issuer in its charter)

Maine	01-0354107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

74 Industrial Park Road, Saco, Maine 04072
(Address of principal executive offices) (Zip code)

Issuer's telephone number: (207) 283-0156

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, no par value	American Stock Exchange (Emerging Company Marketplace)

Securities registered under Section 12(g) of the Exchange Act: None

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 __

Check if no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.[ ]

Issuer's revenues for its most recent fiscal year: $16,198,385

The aggregate market value of Common Stock held by non-affiliates as of March 15, 1999 was $3,576,000

There were 5,061,123 shares of Common Stock of the issuer outstanding as of March 15, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Part III: Proxy Statement for the Annual Meeting of Shareholders to be held on June 10, 1999

Transitional Small Business Disclosure Format: Yes [ ] No [X]

PART I

ITEM 1. DESCRIPTION OF BUSINESS.

Intelligent Controls, Inc. ("INCON" or the "Company") is a Maine corporation founded in 1978. INCON develops, manufactures, and sells electronic measurement systems to the petroleum and power utility industries and for general level measurement and predictive maintenance applications. The Company's products, including related applications and communication software, enable the users to detect leaks, measure liquid levels, and to perform predictive maintenance monitoring of equipment as an early indicator of wear and potential failure. The table below summarizes sales for these product lines over the past three years.

NET SALES BY PRODUCT LINE
(Dollars In Thousands)

	1998		1997		1996	
Petroleum (ATG):						
OEMs	451	3%	$ 655	5%	$ 557	6%
End Users	14,409	89%	10,803	83%	7,881	79%
Total ATG:	14,860		11,458		8,438	
Utility and Other						
Power Utility	1,237	7%	1,398	11%	1,198	12%
General Instrument	101	1%	149	1%	255	3%
Total Utility and Other	1,338		1,547		1,453	
TOTAL NET SALES	$16,198	100%	$13,005	100%	$9,891	100%

PETROLEUM EQUIPMENT PRODUCTS

INCON manufactures a line of electronic instruments for use at retail gasoline stations and gasoline/convenience stores. The products are also utilized in other locations where petroleum fuels or chemicals are stored in underground storage tanks ("USTs") and above ground storage tanks ("ASTs"), including large private fleets, government agencies, municipalities, and fuel distribution companies. The product line includes automatic tank gauges (some with remote communications features), dedicated leak detectors, liquid level sensors, line leak detectors, user interface software, and various accessories, all of which can be used to meet UST monitoring regulations promulgated by the U.S. Environmental Protection Agency (the "EPA"), and to provide information for the tank owner to manage inventories. The manufacturing process for these and other INCON products consists of basic mechanical and electronic assembly as well as the integration of software into the overall system.

INCON's automatic tank gauge ("ATG") systems consist of wall-mounted electronic consoles, tank-mounted liquid level sensors, leak sensors, user interface software, and associated accessories. The systems provide very accurate measurement of inventory (gasoline or other liquid) in a UST or AST. INCON tank gauges also perform leak tests to determine whether product is escaping from the tank. ATG systems can also monitor a wide variety of sensors which may be located between the walls of double walled tanks, in sumps, under dispensers, or in other locations where leaking product might collect.

The Company's electronic Line Leak Detector ("LLD") monitors the pressurized pipe between the submersible pump (located in the tank) and the dispenser (gas pump). The product meets pipeline monitoring requirements imposed by EPA regulations and is an updated technology which can replace mechanical line leak detectors. The LLD can interface with an ATG or operate as a stand-alone device. The product design has been enhanced since its original 1995 introduction, and the Company received notice recently of patent allowance. In 1997 and 1998 enhanced LLDs have been operating successfully in numerous commercial locations and customer response has been favorable. INCON also offers dedicated leak detection ("DLD") consoles which are similar to the ATG console. Instead of measuring inventory levels, these products only monitor leak detection, thereby offering certain customers an inexpensive alternative for achieving regulatory compliance. In addition to the ATG consoles, line leak detectors and liquid level sensors, INCON offers a wide variety of accessories, software, and leak detection sensors. These provide the ability to customize a system for specific customer applications, allow the system to sense leaks and inventory levels in many different locations, and simplify installation. Some of these products and systems are assembled by the Company, while others are fabricated by outside contractors to INCON specifications.

INCON first produced its own liquid level probes in 1994. The Company's liquid level sensors are based on magnetostrictive position measurement technology which is widely proven in the industry. This capability of manufacturing its own probes has given INCON control of product quality and significantly reduced the overall cost of this component to the Company. In most cases, each UST or AST requires a liquid level sensor. INCON's ATG consoles will support from one to eight liquid level sensors. The average North American retail gasoline station or gasoline/convenience store has three USTs, while sites overseas may have five to eight tanks.

In 1997 the Company designed and placed in beta site testing a new ATG product line, the 1001 and 2001 models, marketed under the Company's Tank Sentinel registered trademark. They were designed as the new generation product to replace INCON's model 1000 and 2000 series. This product line was fully introduced in the Spring of 1998. These units have optional internal fax modem communications capability and were designed to be easy to use and upgrade, providing greater flexibility for the operator. They provide more overall capability than any other tank gauge in their price range as well as upgraded display, printer, and keyboard functions. This contrasts to some competitive models that cannot be upgraded, or require very expensive additional modules to accommodate needed features. The 1001 model can accommodate four liquid level sensor inputs and the 2001 model accommodates eight. The 1001 and 2001 models are designed to be very cost-effective to manufacture and incorporate a large number of common components.

In keeping with the trend toward digital technology, INCON manufactures, under private label, a Digital Liquid Level Sensor ("DLP"). This device integrates microcomputer functions of the automatic tank gauge console into the tank-mounted liquid level sensor. The microprocessor in the DLP interprets the signal from the level and temperature sensing system and transmits the processed data to a remote computer or other collection device. Data from many sensors can be transmitted over a common cable in a manner similar to a computer on a network. The product allows the ATG information to be read directly by personal computers, cash registers, point of sale equipment, or fuel management systems, both remotely and at the site. The Company has been actively developing a software product capability which can be offered alone, or in combination with INCON hardware products. This capability will allow digital or traditional probe users to efficiently integrate an overall system using equipment and software modules, which can interface with their established or developing business information systems. This software, called System Sentinel was released to beta sites starting in September 1998 and has been officially made available to the market in February 1999.

The demand for ATGs, DLDs and LLDs domestically has been strong and bolstered by EPA and state regulations that require owners of USTs to monitor the tanks and related lines for leaks. In addition to more sophisticated and automated techniques (such as automatic tank gauging), the EPA regulations permit the use of inventory reconciliation and manual (dip stick) testing as a means of compliance. Although less expensive, these methods do

not provide for accurate inventory measurement and control and are also subject to personnel variables affecting manual stick readings and data recording. INCON's management believes that UST owners will continue to automate both inventory and leak detection systems to insure accuracy and reduce dependence on trained personnel. Moreover, leak detection requirements will become more stringent. After December 22, 1998, inventory reconciliation and manual testing will be permissible only (i) during the first ten years after a tank is newly installed or upgraded in accordance with EPA performance standards or (ii) in the case of small tanks having less than 550 gallons of capacity. In addition all tanks must meet EPA performance standards in 1998 and management anticipates that this will favorably affect the market for ATGs, DLDs, and LLDs through 1998 and beyond. Management also notes that new gasoline and convenience store expansion is strong, due to growth in the economy, and upgrading of acquired sites by larger, more aggressive marketers.

Internationally, many countries follow the lead of the United States, in terms of both environmental regulations and measurement technologies. The demand for ATGs, DLDs, and LLDs is expected to continue to grow in other parts of the world and INCON will continue to aggressively seek such business. During 1997, the Company shipped two thirds of a $1,800,000 ATG order received in 1996 from Taiwan. The final third of this large order was shipped in March 1998.

POWER UTILITY AND GENERAL INSTRUMENT PRODUCTS

INCON's Power Utility and Predictive Maintenance Instrument lines consist of electronic instruments for measurement and control in the power utility and general industrial markets. Typical customers include large publicly owned electric power utilities, municipal utilities, and manufacturing customers.

Historically, regulation has insulated utilities in the United States and other developed countries from competitive market forces, creating monopolies that permitted utilities to remain profitable despite their use of inefficient or outdated technology. In the deregulated environment being adopted across the United States over the next five years, consumers will have greater freedom to choose electricity suppliers, just as they now can choose among many long distance telephone service providers. This will place significant pressure on utility company management to reduce costs and increase plant efficiency. The Company believes this overall business backdrop will provide a positive environment for products that help utilities operate more efficiently and perform predictive maintenance in advance of system failures.

INCON's power utility product line includes two instruments, the Model 1250 and the Optimizer, offering automated control and data collection for electrical substations. Two other power utility products, the Model 1255 and Model 1810, are offered for use in automating hydroelectric generating plants. The Model 1250 Tap Position Monitor is used on large high-voltage transformers. These transformers are typically equipped with "tap changers" that regulate the voltage on the power transmission and distribution grid. The voltage is adjusted by switching to any one of approximately 32 "voltage taps." The Model 1250 allows utilities to use their system control and data acquisition system (SCADA) to monitor from a central station which tap has been selected. Utilities can then establish interactive control over tap changing through the system and can adjust and regulate the voltage being produced by the transformer. This product is also sold directly to transformer manufacturers and is mounted on many new units sold.

The Optimizer is a microprocessor-based monitoring device used to predict life and schedule preventive maintenance for high-voltage circuit breakers used by electric utilities. It measures the energy dissipated by the contacts in large circuit breakers as they operate. The Optimizer product can help power utilities reduce the cost of breaker maintenance and avoid service interruptions. The product was originally released in 1996 and a second generation version, the Optimizer+ was introduced in September 1998. A new product under development in 1997,

dubbed the "Dry Guy," is a special filtration system product that reconditions the fluids (oil) in circuit breakers and transformers. After further market study in 1998, this product development effort was discontinued.

SOFTWARE/SYSTEMS PRODUCTS

Consistent with an overall business trend, the petroleum market sector is rapidly bringing electronic data interchange and the power of the computer and networking to bear on its business activities. Remote communication, via modem or RF, is becoming an important capability as multiple-site enterprises seek to gather information and control their activities in a standardized and centralized way. Petroleum product marketers, gasoline retailers, gas/convenience store operators, and fuel wholesalers desire automated information and the ability to monitor and plan their activities centrally with less dependence on local management and employees. Modem communications as well as local/host computer systems allow some companies to manage inventories of liquid products, automatically order new product, and comply with environmental monitoring and reporting requirements. In order to meet competitive business pressures as well as regulatory requirements to monitor leaks, users are pushing this market sector towards greater demand for multi-site systems.

INCON is already actively providing a software and systems capability to complement its measurement and leak detection instruments. In 1997 the Company was successful in working with a major convenience store chain to supply a customized software and communication system which linked environmental and business monitoring and reporting across a multiple site activity. As a result of this successful experience and to take advantage of the market trends, INCON began the development of a standardized software package in 1997 which can be installed across a broad customer base. Beta site testing of a new Windows based client/server remote software monitoring package, System Sentinel, began in September 1998. The product was formally introduced in February 1999. Management believes that interconnectivity will be increasingly important, as the owners of existing instrumentation expend considerable effort to link their sites electronically and standardize monitoring and reporting.

COMPETITION

The petroleum equipment market segment is very competitive, both for instrumentation and software/system products. The Company's products compete with similar offerings from other manufacturers in the industry. In addition to INCON, there are at least four other significant suppliers of automatic tank gauge systems, one of which (a division of a large public company) is believed to have approximately a 50 percent market share. These suppliers are generally larger and have potentially greater resources than the Company. In addition there are over ten other minor suppliers of ATGs, as well as additional companies that sell software and other environmental and inventory monitoring services. Several suppliers offer customers the option of contracting out all, or part of, their measurement and compliance management activities. In such a case a monthly service fee is charged and the products can be installed and leased to the site owner. Based on observations to date, INCON's management believes that this concept is slowly being adopted, and may be beneficial to certain types of UST and ATG owners and operators. Although the Company has not provided this outsource service directly, one of its largest customers is active in this area and the Company has benefited from this trend through increased hardware, communications, and software sales.

INCON has a strong competitive position in the power utility market sector for its particular product niche. The Company is the only supplier of programmable tap position monitoring systems in the United States, and competes only with older technologies. The competing products tend to be lower in price, but are more difficult to install, are not programmable, and have more parts that are subject to wear and replacement. There are many types of

transformers and tap changers in service in the United States today that operate with the Model 1250, and the 1250's programmability gives it a major advantage over non-programmable products.

INCON owns exclusive rights to the U.S. patent on certain Optimizer technology. Interest in the concept of circuit breaker monitoring has resulted in several competing models being offered by other companies. These competitive products, however, tend to be more expensive.

CUSTOMERS

INCON's customer base is highly diversified, with no one customer accounting for more than 10 percent of the Company's business in 1998. In the petroleum equipment segment the Company's customers are principally petroleum equipment distributors who purchase products from INCON and are responsible for installation and after-sales service. These distributors range from very large, regionally active organizations, to small organizations that focus on a narrow customer segment or geography. The distributors usually handle other complementary products sold to the same end-use customer base. Examples of such products are gasoline dispensers, point-of-sale ("POS") systems, vapor recovery systems, lighting, and canopies. Often the Company's products are specified by end-users who choose to standardize their equipment for all their locations. The distributors and end-use customers are serviced by INCON's factory-based national selling and technical service organization as well as by regionally-based manufacturer's representatives. In addition, the Company supplies petroleum equipment products to a few OEM (original equipment manufacturer) customers and has developed several large direct national accounts during 1998.

In the power utility and predictive maintenance instruments segment, INCON's customers are equipment OEMs and various electric utilities or large private system operators. These customers are serviced by the Company's factory-based national selling organization as well as by regionally-based manufacturer's representatives.

International sales are normally made to distributors, which are then responsible for importing the product to their respective countries, as well as sales, installation, and after-sales service.

INTELLECTUAL PROPERTY

INCON markets its petroleum equipment products under the registered trademark "Tank Sentinel." INCON holds two patents for its electrical instruments and has been advised a patent will be allowed on its electronic line leak detector (LLD) product. The Company has copyrights on certain software products; and other key software is highly technical and difficult to copy.

The Company has numerous trade secrets with regard to methods of detecting leaks in tanks and pipelines. Among these are INCON's volumetric tank leak test algorithm, its continuous automatic leak detection algorithm, and its method of detecting leaks in pressurized piping. INCON's process for producing the magnetostrictive wire required by the liquid level sensor is a Company trade secret.

GENERAL

As of March 12, 1999 the Company employed 95 people, including 16 in sales, marketing and technical service, 12 in research and product development, 11 in administration, and 56 in manufacturing operations.

In most of its products, INCON tries to utilize off-the-shelf electronic components that are readily available from more than one distributor. There are, however, some products which are designed around a particular manufacturer,

such as in the use of microprocessor chips and compact printers. If one of these manufacturers were suddenly to cease production of a key component, the Company might need to find an alternate source or redesign the product. Stainless steel and brass are major components in two of the Company's products. Both of these commodities can fluctuate in price due to supply and demand, thereby affecting the Company's future costs.

INCON continuously invests in the development of new products and software as well as adapting existing products to new applications. During 1996, 1997, and 1998 the expenditures relating to the development of new products and the improvement of existing products were approximately $983,000, $791,000, and $997,000 respectively. These expenditures represent a Research and Product Development spending rate of 6 to 10 percent of sales.

GOVERNMENT REGULATION/OTHER CERTIFICATIONS

The automatic tank gauge product line, used in gasoline stations and convenience/gasoline stores, requires listing by Underwriters Laboratory (UL) in the United States and by the Canadian Standards Association (CSA) in Canada. All major portions of the Tank Sentinel ATG product line, including line leak detectors, are presently listed by UL and CSA.

The Tank Sentinel ATG products perform leak detection in accordance with EPA regulation 40 CFR Part 280, Subpart D. To prove compliance with the federal and state regulations for tank tightness tests, the ATG system must be tested by an independent laboratory in accordance with EPA/530/UST-90/006 and certified to meet the EPA performance requirements. The INCON TS-1000 system, TS-1001 system, TS-2000 system, TS-2001 system, and TS-LLD have been tested by Ken Wilcox Associates of Blue Springs, Missouri and are certified.

The Tank Sentinel ATG products also meet the much more stringent standards for tank tightness testing . To prove compliance with the federal and state regulations for tank tightness test, the ATG system must be tested by an independent laboratory in accordance with EPA/530/UST-90/006 and certified to meet the performance requirements. The INCON TS-1000, 1001 and TS-2000, 2001 systems have been tested by Ken Wilcox Associates. In Canada the TS-1000,1001 system, TS-2000,2001 system, and TS-LLD are certified by Underwriters Laboratory of Canada in accordance with ULC/ORD-C58.12-1992, "Leak Detection Devices (Volumetric Type) For Underground Flammable Liquid Storage Tanks." This standard is very similar to EPA/530/UST-90/006.

With regard to INCON's own operations, the Company's cost of compliance with federal, state, and local environmental laws does not materially affect the Company's financial condition.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company leases two modern 13,000 square foot facilities in an industrial park in Saco, Maine. One building serves as INCON's executive offices; the other its manufacturing facility. The executive office building is leased from a corporation owned in part by two principal INCON shareholders, Alan and Paul Lukas. The other building is leased from an unrelated third party. The leases on these buildings expire in October 2000 and the executive office building includes an option to purchase at the then fair market value, subject to certain minimum purchase prices. The Company is currently evaluating whether to lease the current facilities for another year or lease a larger building in the same industrial park. The Company believes it will renew these leases or lease alternate facilities, without any material adverse effect on operations in 2000.

The Company maintains no other direct or indirect investments in real estate and has no current intentions to do so.

ITEM 3. LEGAL PROCEEDINGS.

The Company is not a party to any pending litigation or other legal proceedings, other than routine litigation that is incidental to the business and which is not expected to have a material adverse effect on the Company. The Company is not aware of any contemplated legal proceedings against it by any governmental authority.

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

No matters were submitted to the shareholders of the Company during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

On February 15, 1995 the Company's common stock was accepted for listing and began trading on the Emerging Company Marketplace of the American Stock Exchange. The trading symbol for INCON common stock is ITC.

Prior to listing on the Emerging Company Marketplace, there was no trading market for the Company's common stock on any exchange or organized over-the-counter market. The high-low prices for the Company's stock for the last four quarters were as follows:

	HIGH	LOW
Quarter Ended March 28, 1998	$ 2 3/4	$ 2 3/16
Quarter Ended June 27, 1998	$ 3 1/8	$ 1 7/8
Quarter Ended September 26, 1998	$ 2 1/2	$ 1 13/16
Quarter Ended December 26, 1998	$ 2 7/8	$ 1 7/8

As of March 15, 1999 the Company had 440 shareholders of record.

It has been INCON's policy to reinvest all earnings in the business, and the Company has never paid dividends on its Common Stock. Also, under credit agreements with its bank, the Company may not declare or pay dividends to shareholders without the prior consent of the bank.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

1998 COMPARED TO 1997

Net sales totaled $16.2 million in fiscal 1998, an increase of $3.2 million or 24.5 percent from 1997. The increase was primarily due to a strong petroleum market segment fueled by new construction and compliance deadlines for leak detection mandated by the EPA.

Petroleum segment sales increased 30 percent during 1998 to $14.9 million from $11.5 in 1997. Sales through the petroleum distributors (the Company's primary sales channel) increased by 44 percent over 1997. The increase in sales was primarily due to a strong EPA compliance driven market, strong new construction, success with the new ATG 1001/2001 products, as well as general market share gains. The Company completed shipping a $1.8 million order to Taiwan in 1998, of which $1.2 million was shipped in 1997.

The Utility and Predictive Maintenance segment sales fell in 1998 by $209,000, a

13% decline from 1997. The decline in sales was primarily attributable to design changes in Optimizer circuit breaker monitor. During the first half of 1998, all Optimizer shipments were deferred pending completion of the upgrade. Optimizer units recalled from the field were modified to incorporate several improvements, or for a small charge, to replace them with the new model. This latest model (Optimizer+) was released for sale in September 1998 and preliminary customer feedback has been positive.

Gross margins improved markedly to 49 percent in 1998, as compared to 42 percent for the year 1997. Purchased material cost reductions, manufacturing volume efficiencies, reduced warranty scrap, and a favorable product/features mix were the major components of this performance improvement. Another notable factor was the timing of shipments of a large low margin order to Taiwan. In 1997 the Company shipped two thirds of the Chinese Petroleum order with the final one-third shipping in March 1998. Gross margins improved as the year progressed and averaged 52 percent for the second half.

Operating expenses increased as a percentage of sales from 35.1 percent in 1997 to 41.8 percent in 1998. Included in this $2.2 million increase were substantial onetime charges incurred in completing an investment transaction with an outside venture capital firm, legal and settlement costs in two significant lawsuits, and recruiting costs along with the ongoing expenses associated with building a stronger sales/marketing and senior management team. The company also increased its investment in R&D to almost $1 million in 1998 as compared to $790,000 in 1997. Interest expense declined due to strong operating cash flow and cash proceeds from an investment by an outside venture capital firm. The Company recognized $148,809 in interest income for the last 8 months of 1998.

1998 operating profits increased to $1,223,000, or 7.6 percent of sales, from $868,000, or 6.7 percent, in 1997. Even though the Company incurred substantial one-time operating expenses and a higher ongoing operating cost, the combined effect of increased sales, improved gross margins, reduction of interest expense, and the addition of interest income resulted in $355,000 of profit improvement.

1997 COMPARED TO 1996

Net sales totaled $13.0 million in 1997, an increase of $3.1 million or 31 percent from 1996. The increase was primarily a result of strong growth in the petroleum market segment and the shipment of approximately two-thirds of the $1.8 million Taiwan automatic tank gauge order received in late 1996.

Petroleum segment sales increased to $11.5 million, or 36 percent from $8.4 million for the comparable period in 1996. Sales, excluding the large shipments to Taiwan, increased over 31 percent from 1996. The growth was attributable to continued sales increases to key accounts as well as strong sales of the electronic Line Leak Detector product.

The Utility and General Instruments segment grew 6 percent, from $1.4 million in 1996 to $1.5 million in 1997. The Company continued to ship the Optimizer product, originally released in 1996. In 1997, however, further sales of the product were suspended, pending software and hardware changes to improve reliability. The Company began to arrange for the replacement of several malfunctioning units in the field, as it prepared to implement product changes.

Gross margins improved modestly in 1997, to 42 percent compared to 41 percent for the comparable period in 1996. The 1996 adverse effects of product mix and increases in scrap carried into early 1997 and resulted in lower gross margins during the first quarter of 1997. Gross margins improved as the year progressed and averaged 43 percent in the second half of 1997.

Operating expenses, managed aggressively following the operating loss in 1996, increased slightly in 1997 (by $73,977) but declined sharply as a percentage of sales (35.1% versus 45.4%). Operating expenses were favorably impacted by reduced warranty costs and lower salaries resulting from the departure of several senior management individuals. Research and development spending, although still strong, was notably lower than in 1996 as the major development effort for the electronic Line Leak Detector was completed. Interest expenses declined by a small amount as the operating cash flow improved, particularly in the second half of the year.

1997 operating profits, at $868,426, compared favorably to a 1996 loss of $441,100. It should be noted that the Company was unprofitable in the first quarter of 1997, and thus the improved profits were achieved during the April to

December 1997 period. The keys to the profit turnaround from the loss experienced in 1996 were increased sales volume, improved gross margins, and reduced operating spending as a percent of sales revenue.

LIQUIDITY AND CAPITAL RESOURCES

In 1997 the Company utilized its working capital line of credit to fund the growth in sales and accounts receivable and to accommodate the weak operating results experienced early in the year. The Company increased the working capital line of credit from $3 million to $3.5 million during the first half of 1997. As of December 27, 1997 the Company had $2,745,634 available to be borrowed on the working capital line of credit. Total inventories, at $1,884,000, compared favorably to $2,863,000 at year end 1996 and a meaningful improvement in inventory turnover was achieved in 1997. The reduction in inventory was attributable to shipment of two-thirds of the Taiwan automatic tank gauge order and an overall improvement in material planning and purchasing.

The Company continued to utilize its $3.5 million working capital line of credit to fund operations and growth through the first four months of 1998. On May 1, 1998 the Company completed an investment by Roger E. Brooks and two venture capital funds, Ampersand Specialty Materials and Chemicals III Limited Partnership and Ampersand Specialty Materials and Chemicals III Companion Fund Limited Partnership (collectively, "Ampersand"). Ampersand and Roger E. Brooks invested $5.6 million to purchase common stock from INCON. The proceeds from these funds were utilized to pay off the working capital line of credit ($1 million), complete a Company tender offer to its own shareholders ($1.6 million) and pay legal settlement costs ($500,000). The remainder of the investment is available as additional working capital, and could be used to fund future acquisitions by the Company. Although the Company has completed no acquisitions to date, it continues to explore growth opportunities through acquisition. As of December 26, 1998, the Company had $3.5 million available to be borrowed on its working capital line of credit, as well as a cash balance of $4,202,084.

Total year end inventories valued at $1,321,000, down from $1,854,000, primarily due to continued improvement in materials management and purchasing. Accounts receivable grew from $2,200,000 at year end 1997 to $3,253,000 at year end 1998 due to an exceptionally strong fourth quarter 1998.

The Company has a $1 million equipment revolver, of which $666,000 was available to be borrowed as of December 26, 1998. The Company funded $157,000 of capital additions with this equipment revolver in 1997. In 1998 the Company did not borrow against the equipment revolver.

On September 18, 1998 the Company announced its Board of Directors had authorized the repurchase of up to $250,000 of its Common Stock in a stock buyback program which would end after March 1999. The Board of Directors increased and extended this program on December 14, 1998 to allow up to $500,000 of the Company's Common Stock to be repurchased through September 1999. As of December 26, 1998, the Company was able to repurchase $17,956 of its Common Stock at an average price of $2.36 per share. The shares purchased under this program will be held for issuance under the employee stock option plan and other compensation plans, or for other proper corporate purposes.

The Company feels that current funds and existing lines of credit are adequate to fund existing operations for the foreseeable future.

YEAR 2000 ISSUES

Year 2000 (Y2K) issues arise from the inability of some computer-based systems to properly recognize and process dates after December 31, 1999. The Company is dependent on computer hardware and software ("IT Systems") and non-IT systems, such as telephones, HVAC, and other equipment containing embedded microprocessor technology. Most of the Company's key business processes utilize this equipment either directly or indirectly.

STATE OF READINESS

The readiness effort by the Company is proceeding on schedule. All IT hardware and software systems have been inventoried. These systems and equipment have been ranked according to their criticality to individual core business operations. Lists of non-IT systems, such as telephone, security systems, etc., including those identified as potentially having embedded time-dependant computer chips, have been inventoried and ranked similarly. All significant business partners including service providers such as banks, financial consultants, etc., vendors of material for production, and sales-channel partners including independent representatives and distributors, were included in the inventory process.

The Company believes it is highly unlikely that there will be significant internal Y2K problems, as all major IT systems have had extensive upgrades in 1998, including accounting, manufacturing, and sales processing software and hardware, some with the assistance of system vendor support. Although helpful to the Y2K compliance effort, theses upgrades were made in the normal course of business to replace outmoded systems. All INCON products that require date-related computations have been thoroughly tested for Y2K compliance. Most INCON products have no date-dependencies in either operation or computation. The Company believes that all INCON products are Y2K compliant, and information to that effect has been distributed widely to customers, investors, and government agencies, and is available on the Company web site.

COSTS TO ADDRESS Y2K ISSUES

The Company began incurring costs to address Y2K issues in 1998. These costs are primarily the costs of current employees' time to do the appropriate planning, testing, and investigation of the many areas of the business potentially affected by this issue. The total cost of this compliance effort through December 26, 1998 was approximately $10,000. The costs have not been, and are not forecasted to be, material to the operating results of the Company. All expenses will continue to be expensed as incurred, except those capitalized as normal costs of doing business. The Company estimates that its total remaining costs to address Y2K issues forecasted for 1999 are approximately $20,000.

RISKS OF Y2K ISSUES

With the completion of major internal systems upgrades in 1998, and with thorough product testing completed in first quarter 1999, it is now believed that the most reasonably likely Y2K risk would be the loss of a major business partner or other external system. One such scenario would be the inability of a major (high-sales volume) distributor or representative to carry on its core business function, resulting in interrupted cash flow and customer service. Means to identify and protect the Company in the case of these and other uncontrollable scenarios will be fully considered in the contingency planning phase.

CONTINGENCY PLANS

Remediation efforts on internal systems and products, including verification and validation tests, will continue until all identified mission-critical, high-risk systems are tested, by July 1,1999. It is possible that remedial efforts will include contacting outside parties and agencies to identify and evaluate their Y2K issues, and working cooperatively with them when possible to correct and test deficiencies. Work will continue thereafter to test secondary, low-impact systems. For Y2K issues that have a significant probability of not being remediated by the time of the changeover to 2000, and to plan for unlikely but possible business disruptions from undiscovered Y2K issues, contingency plans will be developed and completed by October 1, 1999.

EFFECT OF NEW ACCOUNTING PRONOUNCEMENTS

In June of 1997, the Financial Accounting Standards Board issued STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 130 - REPORTING COMPREHENSIVE INCOME, which requires the separate reporting of all changes to shareholders' equity, and SFAS NO. 131 - DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which revises existing guidelines about the level of financial disclosure of a Company's operations. Both Statements are effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has determined that these new reporting standards do not necessitate any changes to existing financial reporting.

In June 1998, the Financial Accounting Standards Board issued STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 133 - ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which requires entities to report all derivatives at fair value as assets or liabilities in their statements of financial position. This statement is effective for financial statements issued for fiscal periods beginning after June 15, 1999. The Company does not currently have any derivative instruments or hedging activities to report under this standard.

FORWARD-LOOKING STATEMENTS

The "Management's Discussion and Analysis" section and "Description of Business" section of this report contain forward-looking statements, as defined in Section 21E of the Securities Exchange Act of 1934. Examples of such statements in this report include those relating to estimates of future market demand and trends regarding Petroleum and Utility/Predictive Maintenance segment products, expected future efforts with regard to foreign markets for Company products, expected lease renewals and associated costs, expected future revenues and warranty costs, future adequacy of the Company's capital resources, and expected completion dates and forecasted costs of Y2K compliance efforts. The Company cautions investors that numerous factors could cause actual results and business conditions to differ materially from those reflected in such forward-looking statements including, but not limited to, the following: unanticipated shifts in market demand for ATG and LLD products or Utility/Predictive Maintenance segment products, owing to competition, regulatory changes, or changes in the overall economy; competitive pressures on sales margins for INCON products; unanticipated warranty costs from existing products or newly introduced products; unexpected costs associated with Y2K issues; and risks attendant to expansion of the Company's business through increased investment in product development, increased marketing and sales efforts, and future acquisitions.

ITEM 7. FINANCIAL STATEMENTS.

Audited financial statements of the Company appear beginning at page F-1 below, and are incorporated herein by reference.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

There were no changes in or disagreements with accountants on accounting and financial disclosures in 1998.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.

Certain information with respect to the executive officers of the Company is set forth below. All other information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the Annual Meeting of Shareholders, to be held on June 10, 1999.

Under the bylaws of the Company, all officers hold office until the next Annual Meeting of Directors and until their successors are chosen and have qualified, or until their earlier resignation or removal from office.

There are no family relationships among any executive officers or directors.

The executive officers of the Company are as follows:

NAME	AGE	POSITIONS WITH COMPANY
Roger E. Brooks	54	Chief Executive Officer and Director
Alan Lukas	48	Vice President Product Development, Director, and Chairman of the Board
Andrew B. Clement	29	Controller and Assistant Treasurer
Enrique Sales	35	Vice President Sales & Marketing

Roger E. Brooks served as a consultant to INCON from February 5, 1998 until he became President/CEO and a Director on May 1, 1998. Previously he was President/CEO and a Director of Dynisco, Inc. (1984-1996), a Director, Executive Vice President/Chief Operating Officer and VP Marketing & Sales for Thermo Electric Co. Inc. (1977-1984), and Marketing Manager for General Cable Corporation (1970-1977). Currently he is a Director of American MSI Corporation, and Moldflow Corporation.

Alan Lukas founded INCON in 1978. Previously he had held positions as Project Engineer at GenRad (1972-1973), Applications Engineer at Analog Devices, Inc. (1973), Product Marketing Manager at Teledyne Philbrick (1974), Engineering Manager at Process Development Corp., Division of Honeycomb Systems (1975-1978) and President/CEO and Chairman of INCON (1978-1998). He currently is a member of the Advisory Board of the School of Engineering Science at the University of Southern Maine. He has been a director of INCON since 1978.

Andrew B. Clement has been with INCON since November of 1997, in the position of Controller. Previously he held positions as Controller at EDM, Inc. (1997), Accountant at Portland Pipe Line Corp. (1996) and Cost Accountant at Aero Tech Manufacturing, Inc. (1992-1995)

Enrique (Rick) Sales joined INCON in December 1998 as the company's Vice President of Sales & Marketing. Previously, he was Director of Sales & Marketing for LMI, Inc. (1998), Vice President of Sales & Markeitng for Lan Technologies, Inc. (1992-1998), Sales Manager, Latin America and Product Manager for BASF Corporation (1987-1989), and Sales Representative for International Paper, Co. (1985-1987). He is a Trustee of the Renssalaer Alumni Association.

ITEM 10. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement for the 1999 Annual Meeting of Shareholders.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

An index of the exhibits filed with this report appears beginning at page E-1 below, and is incorporated herein by reference.

During the forth quarter of 1998 the Company filed one report on Form 8-K. The report was filed on December 14, 1998 and related to an increase in the Company's stock buyback program.

SIGNATURES

In accordance with Section 13 of the Exchange Act, the Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLIGENT CONTROLS, INC.

By: /s/ ROGER E. BROOKS

Roger E. Brooks, President and
Chief Executive Officer
Date: March 26, 1999

By: /s/ ANDREW B. CLEMENT

Andrew B. Clement, Controller
(principal financial officer and
principal accounting officer)
Date: March 26, 1999

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

/s/ ROGER E. BROOKS   Date: March 26, 1999

Roger E. Brooks, President, Chief
Executive Officer and Director

/s/ ANDREW B. CLEMENT   Date: March 26, 1999

Andrew B. Clement, Controller

/s/ GEORGE E. HISSONG   Date: March 26, 1999

George E. Hissong, Director

/s/ ALAN LUKAS   Date: March 26, 1999

Alan Lukas, Director

/s/ PAUL F. WALSH   Date: March 26, 1999

Paul F. Walsh, Director

/s/ CHARLES D. YIE   Date: March 26, 1999

Charles Yie, Director

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
3(i)	Conformed copy of Articles of Incorporation, as amended to date
3(ii)	Bylaws of the Company, as amended to date
4	See Exhibits 3(i) and 3(ii)
10.1	Investment Agreement, dated March 26, 1998, among the Company, Ampersand Specialty Materials and Chemicals III Limited Partnership, Ampersand Specialty Materials and Chemicals III Companion Fund Limited Partnership, and Roger E. Brooks; incorporated by reference to Exhibit 99.c(1) to the Company's Schedule 13E-4 Issuer Tender Offer Statement filed March 30, 1998
10.1A	Amendment No. 1 to Investment Agreement, dated as of May 1, 1998, among the Company, Ampersand Specialty Materials and Chemicals III Limited Partnership, Ampersand Specialty Materials and Chemicals III Companion Fund Limited Partnership, and Roger E. Brooks; incorporated by reference to Exhibit 10.1A to the Company's Form 10-QSB for the quarter ended March 28, 1998
10.2	Stockholders Agreement, dated as of May 1, 1998, among the Company, Ampersand Specialty Materials and Chemicals III Limited Partnership, Ampersand Specialty Materials and Chemicals III Companion Fund Limited Partnership, Roger E. Brooks, Alan Lukas, Paul E. Lukas, and certain related parties; incorporated by reference to Exhibit 99.c(2) to the Company's Schedule 13E-4 Issuer Tender Offer Statement filed March 30, 1998

Note: Compensatory plans and management contracts are filed as Exhibits 10.3 through 10.10 below.

10.3	Employment Agreement between the Company and Roger E. Brooks; incorporated by reference to Exhibit 10.3 to the Company's Form 10-QSB for the fiscal quarter ended March 28, 1998

10.3A	Employee Stock Restriction Agreement between the Company and Roger E. Brooks and related promissory note, pledge agreement and form of 83(b) election; incorporated by reference to Exhibit 10.3A to the Company's Form 10-QSB for the fiscal quarter ended March 28, 1998
10.4	Employment Agreement dated as of May 1, 1998 with Alan Lukas; incorporated by reference to Exhibit 10.2 to the Company's Form 10-QSB for the fiscal quarter ended June 27, 1998
10.5	1998 Employee Stock Option Plan; incorporated by reference to Exhibit 10.4 to the Company's Form 10-QSB for the quarter ended March 28, 1998
10.6	1984 Incentive Stock Option Plan; incorporated by reference to Exhibit 6.5 of the Company's Form 1-A, filed June 19, 1993, as amended, SEC File No. 24B-3429 ("Company's Form 1-A")

10.6A	Amendment No. 1 to 1984 Incentive Stock Option Plan; incorporated by reference to Exhibit 10.5A of the Company's Form 10-SB, filed February 2, 1995
10.6B	Amendment No. 2 to 1984 Incentive Stock Option Plan; incorporated by reference to Exhibit 10.6B of the Company's Form 10-KSB for the fiscal year ended December 31, 1996
10.7	1993 Director Stock Option Plan; incorporated by reference to Exhibit 6.7 of the Company's Form 1-A
10.8	1994 Employee Stock Purchase Plan, amended and restated as of January 1, 1996; incorporated by reference to Exhibit 10.9 of the Company's Form 10-KSB for the fiscal year ended December 31, 1996
10.9	Advisory Board Stock Option Plan; incorporated by reference to Exhibit 6.6 of the Company's Form 1-A
10.10	Form of Confidentiality and Nondisclosure Agreement; incorporated by reference to Exhibit 6.11 of the Company's Form 1-A
10.11	Settlement Agreement and Mutual Release, dated May 13, 1998, with John Knight; incorporated herein by reference to Exhibit 99.1 to the Company's Form 8-K filed May 27, 1998
10.12	Settlement Agreement, dated August 25, 1998, between the Company and Hasstech, Inc.
10.15	Lease Agreement with Apollo Development Corp., dated as of April 11, 1991; incorporated by reference to Exhibit 6.4 of the Company's Form 1-A
10.15A	Lease Extension Agreement, executed May 27, 1997, with Apollo Development Corp.; incorporated by reference to Exhibit 10.3A to the Company's Form 10-KSB for the fiscal year ended December 27, 1997
10.15B	Lease Extension Agreement, executed March 27, 1998 with Appollo Development Corp.; incorporated by reference to Exhibit 10.5 to the Company's Form 10-QSB for the fiscal quarter ended March 28, 1998
10.15C	Lease Extension Agreement, executed January 4, 1999 with Appollo Development Corp.
10.16	Lease Agreement with BJB Associates, dated June 21, 1994; incorporated by reference to Exhibit 10.4 of the Company's Form 10-KSB for the fiscal year ended December 31, 1994
10.16B	Addendum to Lease, executed May 27, 1997, with BJB Associates; incorporated by reference to Exhibit 10.4A to the Company's Form 10-KSB for the fiscal year ended December 27,

1997

10.16C	Addendum to Lease, executed April 28, 1998 with BJB Associates, and Letter dated April 3, 1998 from BJB Associates regarding reimbursement of utility cost by landlord; incorporated by reference to Exhibit 10.6 to the Company's Form 10-QSB for the fiscal quarter ended March 28, 1998
21	Subsidiaries of the Company
23	Consent of Accountants
27	Financial Data Schedule

REPORT OF INDEPENDENT ACCOUNTANTS

BOARD OF DIRECTORS AND STOCKHOLDERS OF INTELLIGENT CONTROLS, INC.

In our opinion, the accompanying balance sheets and the related statements of income, stockholders' equity, and cash flows present fairly, in all material respects, the financial position of Intelligent Controls, Inc. at December 26, 1998 and December 27, 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/S PRICEWATERHOUSECOOPERS L.L.P.

Portland, Maine
February 5, 1999

INTELLIGENT CONTROLS, INC.
BALANCE SHEETS

December 26, 1998 and December 27, 1997

ASSETS

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 4,202,084	$ 300
Accounts receivable, net of allowances of $170,000 in 1998 and $50,000 in 1997	3,253,477	2,200,062
Inventories	1,320,913	1,854,328
Prepaid expenses and other	127,425	257,704
Income tax receivable	-	119,099
Deferred income taxes	343,520	192,464
Total current assets	9,247,419	4,623,957

Property and equipment, net	889,748	856,581
Other assets	31,611	27,176
	$ 10,168,778	$ 5,507,714

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Non-interest bearing overdraft	$ -	$ 67,259
Note payable - bank	-	754,366
Income taxes payable	299,269	-
Accounts payable	1,007,400	769,097
Accrued expenses	1,144,682	520,709
Current portion of long-term debt	194,000	194,700
Total current liabilities	2,645,351	2,306,131
Long-term debt, net of current portion	140,279	372,401
Deferred income taxes	76,740	67,295
Stockholders' equity:		
Common stock, no par value; 8,000,000 shares authorized; 5,060,760 shares issued in 1998 and 3,274,306 in 1997	7,585,080	2,293,841
Retained earnings	1,139,196	468,046
Receivable from stockholder	(1,376,728)	-
Treasury stock, 115,951 shares in 1998	(41,140)	-
Total stockholders' equity	7,306,408	2,761,887
	$ 10,168,778	$ 5,507,714

</TABLE>

The accompanying notes are an integral part of the financial statements

INTELLIGENT CONTROLS, INC.
STATEMENTS OF INCOME

For the Years Ended December 26, 1998 and December 27, 1997

	1998	1997
Net sales	$ 16,198,385	$ 13,005,184
Cost of sales	8,198,641	7,568,247
Gross profit	7,999,744	5,436,937
Operating expenses:		
Selling, general and administrative	5,032,227	3,777,699
Research and development	996,933	790,812
Legal settlement charges	747,660	--
	6,776,820	4,568,511
Operating income	1,222,924	868,426
Other income (expense):		
Interest income (expense)	82,517	(157,230)
Other (expense)	(67,291)	(30,221)
	15,226	(187,451)
Income before income tax expense	1,238,150	680,975
Income tax expense	567,000	246,000
Net income	$ 671,150	$ 434,975
Net income per share basic and diluted	$ .15	$ .13

Weighted average common shares outstanding	4,391,305	3,249,769
	============	============
Weighted average common and common equivalent shares outstanding	4,455,635	3,392,686
	============	============

The accompanying notes are an integral part of the financial statements

INTELLIGENT CONTROLS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 26, 1998 and December 27, 1997

<TABLE>
<CAPTION>

	OUTSTANDING COMMON SHARES	STOCK AMOUNT	RETAINED EARNINGS	RECEIVABLE TO SHAREHOLDERS	TREASURY STOCK	TOTAL STOCKHOLDERS' EQUITY
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balances, January 1, 1997	3,238,952	$ 2,252,041	$ 33,071	$ --	($ 4,306)	$ 2,280,806
Exercise of stock options	25,050	20,312	--	--	--	20,312
Issuance of common stock	12,457	25,794	--	--	--	25,794
Retirement of 2,153 treasury shares	(2,153)	(4,306)	--	--	4,306	0
Net Income	--	--	434,975	--	--	434,975
	----------	-----------	-----------	-----------	-----------	-----------
Balances, December 27, 1997	3,274,306	2,293,841	468,046	--	0	$ 2,761,887
Exercise of stock options	125,141	44,012	--	--	--	44,012
Issuance of common stock	2,136,313	6,850,494	--	--	--	6,850,494
Retirement of common stock	(475,000)	(1,603,267)	--	--	--	(1,603,267)
Acquisition of treasury shares	(116,121)	--	--	--	(41,483)	(41,483)
Issuance of treasury shares	170	--	--	--	343	343
Receivable from stockholder	--	--	--	(1,376,728)	--	(1,376,728)
Net Income	--	--	671,150	--	--	671,150
	----------	-----------	-----------	-----------	-----------	-----------
Balances, December 26, 1998	4,944,809	$ 7,585,080	$ 1,139,196	($1,376,728)	($ 41,140)	$ 7,306,408
	==========	===========	===========	===========	===========	===========

</TABLE>

The accompanying notes are an integral part of the financial statements

INTELLIGENT CONTROLS, INC.
STATEMENTS OF CASH FLOWS

For the Years Ended December 26, 1998 and December 27, 1997

<TABLE>
<CAPTION>

	1998	1997
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	$ 671,150	$ 434,975
Adjustments to reconcile net income to net cash Provided (used) by operating activities:		
Depreciation and amortization	267,605	242,430
Loss on disposal of property and equipment	13,426	--
Deferred income taxes	(141,611)	26,381
Changes in assets and liabilities:		
Accounts receivable	(1,053,415)	(239,083)
Inventories	533,415	979,007
Prepaid expenses and other current assets	130,279	85,133

Income tax receivable	119,099	40,901
Income tax payable	299,269	--
Accounts payable and accrued expenses	862,276	(265,310)
Other	(4,435)	(7,196)
Net cash provided by operating activities	1,697,058	1,297,238
Cash flows from investing activities:		
Capital expenditures	(314,198)	(247,931)
Net cash used by investing activities	(314,198)	(247,931)
Cash flows from financing activities:		
(Decrease) increase in non-interest bearing overdraft	(67,259)	67,259
Repayment of note payable - bank	(754,366)	(1,261,496)
Issuance of long-term debt	--	157,000
Repayment of long-term debt	(232,822)	(191,566)
Issuance of common stock, net	5,517,778	46,106
Retirement of common stock	(1,603,267)	--
Acquisition of treasury stock	(41,140)	--
Decrease in restricted cash balances	--	199,120
Decrease in liability to shareholder	--	(199,120)
Net cash (used by) provided by financing activities	2,818,924	(1,182,697)
Net decrease in cash	4,201,784	(133,390)
Cash and cash equivalents at beginning of year	300	133,690
Cash and cash equivalents at end of year	$ 4,202,084	$ 300
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 66,292	$ 160,624
Income taxes	$ 320,000	$ 373,000

</TABLE>

Supplemental disclosure of noncash financing activity:
During 1998 common stock amounting to $1,376,728 was issued for a receivable from stockholder During 1997 treasury stock with a carrying cost of $4,306 was retired.

The accompanying notes are an integral part of the financial statements

INTELLIGENT CONTROLS, INC.
NOTES TO FINANCIAL STATEMENTS

December 26, 1998 and December 27, 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND OPERATIONS

The Company is engaged primarily in designing and manufacturing microprocessor-based control devices and systems for industrial, commercial and power utility applications.

During 1997 the Company changed its reporting year end from a calendar year end used in prior years, to the last Saturday in December.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

REVENUE RECOGNITION

Substantially all revenue is related to the sale of products and is recorded at the time of shipment to the customer.

INVENTORIES

Inventories are stated at the lower of cost (average cost) or market (net realizable value) on a first in first out basis.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation is calculated using straight-line and accelerated methods over estimated useful lives of the equipment (three to ten years) and the lease terms for the leasehold improvements for book and tax purposes.

Expenditures for maintenance, repairs and minor replacements are charged to operations while expenditures for major replacements and betterments are added to property and equipment accounts. When fixed assets are sold, retired or otherwise disposed of, the asset cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

NET INCOME (LOSS) PER SHARE

The net income (loss) per common share has been computed in accordance with STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 128 - EARNINGS PER SHARE. The Statement requires dual presentation of basic and diluted earnings per share of common stock on the statements of income. Basic earnings per share of common stock have been determined by dividing net earnings by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share reflect the potential dilution that would occur if existing stock options were exercised. Following is a reconciliation of the dual presentations of earnings per share for the fiscal years presented.

	Net Income (Numerator)	Common Shares (Denominator)	Earnings Per Share
DECEMBER 26, 1998			
Basic earnings per share	$ 671,150	4,391,305	$ .15
Dilutive potential shares	--	64,330	
Diluted earnings per share	$ 671,150	4,455,635	$ .15
DECEMBER 27, 1997			
Basic earnings per share	$ 434,975	3,249,769	$ .13
Dilutive potential shares	--	142,917	
Diluted earnings per share	$ 434,975	3,392,686	$ .13

FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 27, 1997, the carrying amounts of the Company's financial instruments included in current assets and current liabilities approximate fair value of the short maturity of those instruments. The carrying amounts of the

Company's long-term debt also approximates their value as of December 26, 1998 based upon the borrowing rates currently available to the Company for loans with similar terms and maturities.

IMPAIRMENT ACCOUNTING

The Company adopted FINANCIAL ACCOUNTING STANDARD NO. 121, ACCOUNTING FOR THE IMPAIRMENT OF LONG-LIVED ASSETS AND FOR LONG-LIVED ASSETS TO BE DISPOSED OF, (SFAS No. 121) in 1996. The Company reviews the recoverability of its long-lived assets, including goodwill and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the assets may not be recoverable. The measurement of possible impairment is based on the Company's ability to recover the asset from expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. The measurement of impairment requires management to make estimates of expected future cash flows related to long-lived assets. It is at least reasonably possible that future events or circumstances could cause these estimates to change.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

NEW ACCOUNTING PRONOUNCEMENTS

In June of 1997, the Financial Accounting Standards Board issued STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 130 - REPORTING COMPREHENSIVE INCOME, which requires the separate reporting of all changes to shareholders' equity, and SFAS NO. 131 - DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION, which revises existing guidelines about the level of financial disclosure of a Company's operations. Both Statements are effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company has determined that these new reporting standards do not necessitate any changes to existing financial reporting.

In June 1998, the Financial Accounting Standards Board issued STATEMENT OF FINANCIAL ACCOUNTING STANDARDS (SFAS) NO. 133 - ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES, which requires entities to report all derivatives at fair value as assets or liabilities in their statements of financial position. This statement is effective for financial statements issued for fiscal periods beginning after June 15, 1999. The Company does not currently have any derivative instruments or hedging activities to report under this standard.

RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 financial statements to conform to the 1998 presentation.

2. INVENTORIES

Inventories consisted of the following at December 26, 1998 and December 27, 1997:

	1998	1997
Raw materials and parts	$ 960,552	$ 1,214,749
Work-in-progress	167,512	229,824
Finished goods	187,849	356,974
Supplies and other	5,000	52,781
	$ 1,320,913	$ 1,854,328

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 26, 1998 and December 27, 1997:

	1998	1997
Equipment	$ 1,217,932	$ 1,139,210
Furniture and fixtures	102,874	104,312
Computer software	169,176	154,560
Leasehold improvements	109,512	111,983
Construction in progress	105,813	--
	$ 1,705,307	$ 1,510,065
Less accumulated depreciation and amortization	815,559	653,484
	$ 889,748	$ 856,581

4. NOTE PAYABLE - BANK

Note payable - bank represents amounts borrowed under a $3,500,000 working capital line of credit. Such borrowings are collateralized by all assets of the Company and are subject to certain restrictions, including those related to new borrowings, maximum debt to equity ratio, and minimum pretax income levels. Interest is variable at the bank's base rate plus .25% (7.75% at December 26, 1998 and 8.5% at December 27, 1997). At December 26, 1998, the line was not being utilized and all $3.5 million was available to be borrowed. Amounts borrowed at December 27, 1997 were $754,366. The weighted average interest rate on all outstanding borrowings at fiscal year ended December 26, 1998 was 7.75% and 8.55% for fiscal year ended December 27, 1997.

5. LONG-TERM DEBT

Long-term debt consisted of the following at December 26, 1998 and December 27, 1997:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Term note payable, interest at 9.5% Payable monthly through December 1999	$ --	$ 71,950
Borrowing under a $1,000,000 revolving credit agreement with a bank, interest at a variable rate (7.75% at December 26, 1998 and 8.5% at December 27, 1997), with principal and interest payable monthly through December 2000	334,279	495,151
	334,279	567,101
Less current portion	(194,000)	(194,700)
Long-term portion	$ 140,279	$ 372,401

</TABLE>

The revolving credit agreement is collateralized in the same manner and subject to the same conditions as the note payable described in Note 4. The term note payable is collateralized by a subordinated interest in Company assets and contains restrictions with respect to dividends capital, expenditures, and new borrowings.

5. LONG-TERM DEBT (CONT'D)

At December 26, 1998, aggregate maturities of long-term debt are as follows:

1999	194,000
2000	140,279
	$334,279

6. INCOME TAXES

Income tax expense (benefit) consists of the following:

	1998	1997
Current:		
Federal	$ 544,000	$ 197,000
State	165,000	57,000
	709,000	254,000
Deferred:		
Federal	(110,000)	(6,200)
State	(32,000)	(1,800)
	(142,000)	(8,000)
Total income tax expense	$ 567,000	$ 246,000

The actual income tax benefit differs from the expected tax computed by applying the U.S. federal corporate tax rate of 34% to income before income tax as follows:

	1998	1997
Computed expected income tax expense (benefit)	34%	34%
State income taxes, net of federal benefit	6	6
Foreign Sales Corporation	--	(5)
Legal Settlement	5	
Other	1	1
Total income tax expense rate	46%	36%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities consist of the following at December 26, 1998 and December 27, 1997:

6. INCOME TAXES (CONT'D)

Deferred tax assets:	1998	1997
Inventory	$ 109,212	$ 60,381
Reserves	207,660	108,585
Compensation	26,648	23,498
	$ 343,520	$ 192,464

Deferred tax liabilities:		
Depreciation	$ 76,740	$ 67,295

7. COMMON STOCK

The Company has granted stock options to employees, directors and outside consultants and advisors under a 1984 Incentive Stock Option Plan, a 1993 Directors Stock Option Plan, an Advisory Board Stock Option Plan, and a 1998 Employee Stock Option Plan. Options granted under the 1984 Incentive Stock Option Plan vest at a rate of 20% per year, options granted under the 1998 Employee Stock Option Plan vest at a rate of 25% per year, and options granted under the other two plans vest immediately. Options granted under the 1984 Incentive Stock Option Plan, the Advisory Board Stock Option Plan, and the 1998 Employee Stock Option Plan expire after 10 years, while options granted under the 1993 Directors Stock Option Plan expire after 5 years. As of December 26, 1998, 227,500 shares were available to be granted under these plans in the future. A summary of changes of common stock options during 1998 and 1997 is:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 1997	495,508	$1.69
Issued during 1997	118,000	$2.19
Lapsed during 1997	(40,500)	$2.97
Exercised during 1997	(21,300)	$0.73
Outstanding at December 27, 1997	551,708	$1.74
Issued during 1998	181,000	$2.28
Lapsed during 1998	(223,072)	$1.36
Exercised during 1998	(125,668)	$1.30
Outstanding at December 26, 1998	383,968	$2.36
Shares exercisable at December 26, 1998	157,454	
Shares exercisable at December 27, 1997	398,373	

The weighted average fair value of options granted in 1998 and 1997 was $1.28 and $1.26, respectively and the range of exercise prices at December 26, 1998 is $0.50 to $4.52. The weighted average remaining contractual life of these options is approximately 6.4 years.

7. COMMON STOCK (CONT'D)

On January 1, 1996, the Company adopted STATEMENT OF FINANCIAL ACCOUNTING STANDARDS NO. 123, ACCOUNTING FOR STOCK BASED COMPENSATION (SFAS No. 123). This statement requires a fair value based method of accounting for employee stock options and results in expense recognition for the Company's employee stock plans. It also permits a Company to continue to measure compensation expense for such plans using value based method as prescribed by Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" (APB No. 25). The Company has elected to follow APB No. 25 in accounting for its employee stock plans, and accordingly, no compensation cost has been recognized. Had compensation cost for the Company's stock plans been determined based on the fair value requirements under SFAS No. 123, the Company's net income and earnings per share would have been to the pro forma amounts indicated below:

	1998		1997	
	As Reported	Pro Forma	As Reported	Pro Forma

Net income	$ 671,150	$ 596,630	$ 434,975	$ 399,519
Basic net income per share	$ 0.15	$ 0.14	$ 0.13	$ 0.12

The fair value of stock options in the pro forma accounts for 1998 and 1997 is not necessarily indicative of the future effects on net income and earnings per share. The fair value of each stock option grant has been estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1998 and 1997, respectively: no dividend yield; expected volatility of 50% for both years; risk-free interest rates of 6% for both years; and expected life of 6 years for both years.

8. COMMITMENTS

The Company leases two facilities, including one from a related party, and various computer and office equipment under non-cancelable operating leases. The Company has an option to purchase one of the facilities prior to October 2000. Minimum lease payments over the fixed terms of these leases are as follows:

1999	$148,348
2000	110,623
2001	7,447
2002	2,960

Rent expense was approximately $118,000 and $117,000 in 1998 and 1997, respectively, including approximately $65,000 and $64,000 to a related party.

The Company manufactures a certain product line under an exclusive license agreement which requires the Company to make royalty payments on such product sales through 2007. Royalty expense related to this agreement was $5,690 and $9,377 in 1998 and 1997 respectively.

9. EMPLOYEE BENEFIT PLAN

The Company has adopted a 401(k) plan, which covers all eligible employees and includes a matching contribution by the Company. In 1995, the Company's Board of Directors voted to increase the Company's match from 40% of the first 5% of the employee's contribution, to 50% of an employee's contribution up to 5% of the employee's salary. Expenses associated with the plan were approximately $40,700 and $35,300 in 1998 and 1997, respectively.

10. LITIGATION

On July 26, 1996 the Company received notice of the filing of an action entitled John D. Knight v. Intelligent Controls, Inc. in Maine Superior Court, Cumberland County. The action was brought by Mr. Knight, a former director and executive officer of Intelligent Controls, Inc. whose employment was terminated by the Company in June 1996. In May 1998 the Company settled the lawsuit with Mr. Knight. The financial statements reflect a $40,000 cash payment, recognition of $200,000 for the disqualifying disposition of incentive stock options and $407,660 for exercise of non-qualified stock options. The company was able to realize a tax benefit on $447,660 of these charges, $200,000 was not deductible for tax purposes.

The Company reached a final agreement, early in the third quarter, with Hasstech which had brought suit in October 1997 claiming that INCON's line leak detector infringed a certain Hasstech patent. A settlement reached in mediation, and recorded in the court records, calls for an agreement between the parties whereby INCON will pay Hasstech $100,000, half in September 1998 and half in the first quarter of 1999. The entire $100,000 obligation was recognized as an operating expense in the second quarter of 1998.

EXHIBIT 3(i)

INTELLIGENT CONTROLS, INC.
CONFORMED ARTICLES OF INCORPORATION

Note: These conformed Articles of Incorporation have been prepared based on the original Articles of Incorporation of Intelligent Controls, Inc. as filed on February 23, 1978 with the Maine Secretary of State, and all amendments thereto. Reference is made to the originals for the complete text of the Articles of Incorporation, as amended.

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STATE OF MAINE

ARTICLES OF INCORPORATION

OF

INTELLIGENT CONTROLS, INC.

FIRST: The name of the corporation is INTELLIGENT CONTROLS, INC. and it is located in Maine, at . . . Saco.

SECOND: The name of its clerk and the registered office shall be:

Gregory S. Fryer
One Portland Square
Portland, ME 04112

THIRD: The number of directors constituting the initial board of directors of the corporation is 3.

FOURTH: The board of directors is authorized to increase or decrease the number of directors.

[T]he minimum number . . . shall be 3 directors, . . . and the maximum number . . . shall be 9 directors.

FIFTH: There shall be only one class of shares, viz, Common Stock.

Par value of each share is: none.

Number of shares authorized: 8,000,000.

SUMMARY

The aggregate par value of all authorized shares (of all classes) having a par value is: $0.

The total number of authorized shares (of all classes) without par value is: 8,000,000 shares.

SIXTH: Meetings of shareholders may be held outside the State of Maine.

SEVENTH: There are no preemptive rights.

EIGHT: Other provisions of these articles . . ., including any provisions for the regulation of the internal affairs of the corporation, are [as follows:]

Pursuant to Section 524 of the Maine Business Corporation Act, the Corporation may issue debentures convertible into shares of any class of stock, within such periods and upon such terms as the Board of Directors shall fix and determine.

Section 910 of the Maine Business Corporation Act shall be inapplicable to the Corporation.

The Corporation may purchase its own shares from capital surplus.

Exhibit 3(ii)

BYLAWS

OF

INTELLIGENT CONTROLS, INC.

ARTICLE I

DEFINITIONS

When used in these Bylaws, the terms defined below shall have the meanings specified:

The "Articles" shall mean the Articles of Incorporation of the Corporation, including any and all amendments thereto, as then in effect.

The "Board" shall mean the Board of Directors of the Corporation.

The "Corporation" shall mean Intelligent Controls, Inc., a Maine corporation.

The "Corporation Act" or the "Act" shall mean the Maine Business Corporation Act, Title 13-A of the Revised Maine Statutes Annotated, as then in effect.

The "State" shall mean the State of Maine.

ARTICLE II

CORPORATE OFFICES

SECTION 2.1 Principal Office. The principal office of the Corporation shall be located at 74 Industrial Park Road, P.O. Box 638, Saco, ME 04072 or such other place as the Board may designate from time to time.

SECTION 2.2 Registered Office. The registered office of the Corporation shall be at One Portland Square, P.O. Box 586, Portland, Maine 04112 or at such other address as the Clerk of the Corporation shall maintain.

SECTION 2.3 Other Offices. The Corporation may have offices at such other places either within or without the State as the Board may determine or as the business may require.

ARTICLE III

MEETINGS OF SHAREHOLDERS

SECTION 3.1 Annual Meetings. The President or the Board each year shall call an annual meeting of shareholders for the election of directors and the transaction of any other proper business. Commencing in 1995, the annual meeting shall be held on the first Thursday in June of each year at such date and hour as the President or the Board shall determine.

SECTION 3.2 Special Meetings. Except as otherwise provided by the Corporation Act, special meetings of shareholders may be called only by the President, the Board, or the holders of more than fifteen percent (15%) of the shares entitled to vote at the meeting.

SECTION 3.3 Place of Meetings. All meetings of shareholders shall be held at the registered office of the Corporation or at such other place within or without the State as the President or the Board shall designate.

SECTION 3.4 Notice of Meetings. Written notice of each annual or special meeting of shareholders shall be delivered to each shareholder of record entitled to vote at such meeting, not less than ten (10) days nor more than sixty (60) days before the meeting. Such notice shall state the place, date, and hour of the meeting. In the case of a special meeting, or to the extent otherwise required by the Corporation Act, the Articles, or these Bylaws, such notice shall also state the purpose or purposes for which the meeting is called. If mailed, such notice shall be deemed delivered when deposited with postage prepaid in the United States mail, addressed to the shareholder at his or her address as it appears in the stock transfer books of the Corporation. Defects in notice shall be deemed waived to the extent provided in the Act.

SECTION 3.5 Record Date. For the purpose of determining shareholders entitled to notice of and to vote at any meeting of shareholders, the Board may fix in advance a record date, which date shall not be more than sixty (60) days, nor less than ten (10) full days, prior to the date of the meeting of shareholders. If the Board does not fix a record date for a meeting of shareholders, the day next preceding the date on which notice of the meeting is first given to shareholders shall be deemed to be the record date for such meeting.

SECTION 3.6 List of Shareholders. In advance of each meeting of shareholders, the Corporation shall prepare a complete list of the shareholders entitled to vote at that meeting. Such list shall be available at the meeting for inspection by any shareholder entitled to vote at the meeting.

SECTION 3.7 Quorum. At each meeting of shareholders, the holders of a majority of the shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of business.

SECTION 3.8 Conduct of Meetings. (a) Each meeting of shareholders shall be presided over by the President or by a person designated by the President to act as chairman of the meeting. The chairman of the meeting shall determine the order of business at the meeting and shall have full authority to set reasonable rules of procedure by which the meeting is to be governed. Rulings of the chairman of the meeting on the order of business and other procedural matters may be overturned only by the affirmative vote of two-thirds of the shares present in person or by proxy at the meeting.

(b) The Clerk shall act as secretary of each meeting of shareholders and shall keep a record of all actions taken by the shareholders at the meeting. In the absence of the Clerk, the chairman of the meeting may appoint any person present to act as secretary of the meeting. Minutes of the meeting shall be filed with the Clerk as part of the corporate records.

(c) At or before each meeting of shareholders, the President or other chairman of the meeting shall appoint two individuals to act as voting inspectors at the meeting. The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies. The inspectors shall receive all written votes, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, determine the result and otherwise see that the vote or election is conducted with fairness to all shareholders. In case of disagreement between the inspectors on any question, the chairman of the meeting shall determine the matter at issue.

SECTION 3.9 Proxies. A shareholder may vote either in person or by a written proxy executed by the shareholder or by his or her duly authorized attorney-in-fact. Proxies shall not be given effect unless delivered to the President, Secretary, or Clerk in a timely manner.

SECTION 3.10 Special Approval by Shareholders. Unless approved by vote or written consent of all directors then in office, each of the matters described below will require approval by shareholders at a duly called meeting at which a quorum is present. The vote required by this Section shall be in addition to any greater or different shareholder vote required by the Act, the Articles, or these Bylaws.

(a) any merger or consolidation of the Corporation with any person; any sale, lease, or other disposition by the Corporation of all or substantially all of its assets to any person; any reorganization or recapitalization of the Corporation; or any joint venture, partnership, or similar arrangement to which the Corporation is a party and under which the Corporation is or may become liable for payments exceeding $50,000 in any fiscal year;

(b) any sale or other disposition by the Corporation of any of its capital stock, except pursuant to a stock option or stock appreciation right granted by the Board (or a committee thereof) under a stock option plan approved by shareholders;

(c) any activity by the Corporation to engage in any line of business other than the development, manufacture, and sale of electronic measurement systems and related products, if such activity involves or may involve the expenditure by the Corporation of more than $50,000 in any fiscal year;

(d) any purchase or other acquisition by the Corporation of stock, limited liability company interests, partnership interests, or other securities issued by any other person; any loan or advance to any person, or any investment in or with any other person, other than in the ordinary course of the Corporation's business; or any purchase or other acquisition by the Corporation of the assets of any other person, other than in the ordinary course of the Corporation's business and other than incidental transactions involving payment by the Corporation of less than $50,000;

(e) any amendment of the Articles or Bylaws;

(f) any loan agreement, capital lease, installment purchase, guarantee, or other contract (or series of related contracts), and any amendment to any such contract, under which the Corporation is or may become liable for payments exceeding $5,000,000;

(g) any purchase, redemption, or other acquisition by the Corporation of any shares of its capital stock (or of any option, warrant, or other right to acquire shares of its capital stock), except for repurchases of capital stock from Corporation employees in connection with termination of their employment or in connection with exercises of employee stock options or stock appreciation rights granted by the Board (or a committee thereof), in each case at a price per share not exceeding the then fair market value of the reacquired stock;

(h) any transaction or contract of the Corporation involving or requiring the liquidation of the Corporation;

(i) any related-party transaction in which the Corporation is or may become liable for payments, except (1) any transaction expressly contemplated by that certain Investment Agreement, dated as of March 26, 1998, among the Corporation, Ampersand Specialty Materials and Chemicals III Limited Partnership, and Ampersand Specialty Materials and Chemicals III Companion Fund Limited Partnership, (2) any transaction approved by vote or written consent of all disinterested directors after all material facts as to each related party's interest and as to the transaction are disclosed or known to the Board, or (3) any employment or retention of a related party as an employee, director, or consultant of the Corporation, and any compensatory contract or arrangement relating thereto, if approved by vote of the Board or a duly authorized committee of the Board.

For purposes hereof, "approval by shareholders" shall mean approval by a majority of the votes cast by the holders of shares entitled to vote on the subject matter; "person" shall mean and include any individual, entity, or group; "related party" shall mean any director or officer of the Corporation, any beneficial owner of more than five percent of the outstanding common stock of the Corporation, and any person (other than the Corporation or any subsidiary thereof) who is an associate, affiliate, or immediate family member of any such director, officer, or owner; "related-party transaction" means a sale or purchase of assets, sale or purchase of securities, loan, or other contract or transaction with a related party, other than a bona fide employment arrangement in the ordinary course of the Corporation's business; "affiliate" and "associate" shall have the meanings ascribed to those terms in Rule 12b-2 of the Securities Exchange Act of 1934, as amended; "beneficial owner" and "immediate family" shall have the meanings ascribed to those terms in Rule 16a-1 of such act.

ARTICLE IV

DIRECTORS

SECTION 4.1 General Powers. Except to the extent expressly reserved to the shareholders by the Corporation Act, the Articles, or these Bylaws, the Board shall have full authority to manage and direct the management of the business and affairs of the Corporation.

SECTION 4.2 Number. The number of directors constituting the Board shall be set from time to time by the shareholders or the Board within the limits fixed by the Articles.

SECTION 4.3 Qualifications. Directors must have attained the age of twenty-one (21) years.

SECTION 4.4 Election and Term. Unless otherwise provided by the Articles and except as hereinafter provided, the directors shall be elected each year at the annual meeting of shareholders. Each director shall hold office until the expiration of the term for which he or she is elected and until his or her successor has been elected and qualified, or until his or her earlier resignation, removal from office, death, or incapacity.

SECTION 4.5 Vacancies. Vacancies in the Board, including those created by an increase in the number of directors or by removal, may be filled by a majority of the directors then in office, even if less than a quorum, or by a sole remaining director. Any director elected to fill any vacancy shall be elected for the unexpired term of his or her predecessor.

SECTION 4.6 Meetings and Notice. An annual meeting of the Board may be held at the place of and immediately following the annual meeting of shareholders, and no notice of such meeting shall be required. Other regular meetings of the Board may be held without notice at such place, date, and hour as the Board may fix by resolution. Special meetings of the Board may be called by the President, any two (2) directors, or such other persons as are specifically permitted by the Corporation Act to call special meetings of directors. Notice of the place, date, and hour of each special meeting (i) shall be mailed to each director, addressed to his or her residence or usual place of business, at least three (3) business days before the meeting or (ii) shall have been sent to him or her at such place by telegram or cable, or received by him or her in person or by telephone or fax, at least twenty-four (24) hours before the meeting. Except as otherwise expressly required by the Act, the Articles, or these Bylaws, notices of meetings need not describe the purposes of or business to be transacted at the meeting. Notice of any meeting of the Board need not be given to any director who is present at such meeting or who signs a written waiver of notice, either before or after the meeting. Notice of adjournment of any meeting need not be given if the time and place to which it is adjourned are fixed and announced at such meeting. Notwithstanding any provision of these Bylaws, defects in the calling or notice of a meeting of directors shall be deemed waived to the extent provided by the Act.

SECTION 4.7 Quorum; Voting. At each meeting of the Board, a majority of the directors then in office shall constitute a quorum for the transaction of business. Except as otherwise provided by the Corporation Act, the Articles, or these Bylaws, the vote of a majority of the directors present shall constitute the act of the Board.

SECTION 4.8 Conduct of Meetings. The Board may designate a chairman to preside at meetings of directors and may otherwise adopt rules governing the conduct of such meetings. At each such meeting the Secretary (or, in the absence of the Secretary, another person designated by the chairman of the meeting) shall keep minutes of all actions taken by the directors. Such minutes shall be filed with the Clerk as part of the corporate records.

SECTION 4.9 Committees. By resolution adopted by a majority of the directors then in office, the Board may designate from among its members one or more committees, each consisting of two (2) or more directors. The Board may delegate to any such committee all or any portion of the authority of the Board, except to the extent prohibited by the Corporation Act. Each committee shall keep regular minutes of its meetings and shall report its actions to the Board when so requested.

SECTION 4.10 Telephonic Meetings. Members of the Board or any committee thereof may participate in a meeting of the Board or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

SECTION 4.11 Consent of Directors. Any action required or permitted to be taken at a meeting of the Board or of any committee thereof may be taken without a meeting if written consents, setting forth the action taken, are signed (at any time before or after the intended effective date of such action) by all members of the Board or committee, as the case may be. Such consents shall be filed with the Clerk as part of the corporate records.

SECTION 4.12 Compensation of Directors. Directors shall receive reasonable compensation for their services, which compensation shall be from time to time determined by the Board. Directors may be reimbursed for reasonable expenses incurred in the performance of their duties.

ARTICLE V

OFFICERS

SECTION 5.1 Officers. The Board shall elect a President, Secretary, Treasurer, and Clerk of the Corporation and such other officers as the Board from time to time deems appropriate (including without limitation one or more Vice Presidents). Any two or more offices may be held by the same person.

SECTION 5.2 Term of Office; Removal. Officers other than the Clerk shall hold office until the next annual meeting of the Board and until their successors are chosen and have qualified, or until their earlier resignation or removal from office. All officers serve at the pleasure of the Board and may be removed at any time by the Board, with or without cause. Removal from office, however effected, shall not prejudice the contract rights, if any, of the officer removed, nor shall election or appointment of an officer of itself create contract rights.

SECTION 5.3 Resignations. Any officer may resign by giving written notice to the President or Clerk. Unless otherwise specified therein, a resignation shall take effect upon receipt of such notice, and the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5.4 Vacancies. A vacancy in any office, however occurring, shall be filled in the manner prescribed by these Bylaws for regular election or appointment to such office.

SECTION 5.5 Powers and Duties. Except as hereinafter provided and subject to the control of the Board, each officer shall have such powers and duties as are customarily incident to his or her office or as the Board may otherwise prescribe.

(a) President. The President shall be the chief executive officer of the Corporation, shall preside at all meetings of shareholders and (unless the Board shall have otherwise appointed a chairman) all meetings of the Board, shall supervise and direct all officers of the Corporation, and shall see that all orders and resolutions of the Board are carried into effect. The President shall have authority to appoint and remove agents and employees and to prescribe their powers and duties and may authorize any other officer or officers to do so. He or she shall have authority to institute or defend legal proceedings whenever the directors or shareholders are deadlocked.

(b) Vice President. The Board may elect one or more Vice Presidents, who shall have such powers and duties as the Board shall designate. In the absence or disability of the President, the Vice President (or, in case there shall be more than one, the Vice Presidents in such order as the Board shall designate) shall perform the duties and exercise the powers of the President.

(c) Secretary. The Secretary shall attend meetings of the Board and record its proceedings. He or she may give, or cause to be given, notice of all meetings of shareholders and directors of the Corporation. The Secretary may certify all votes, resolutions, and actions of the shareholders, the Board, and committees of the Board, and may attest all documents executed on behalf of the Corporation.

(d) Treasurer. The Treasurer shall have charge of, and be responsible for, all funds and securities of the Corporation, shall maintain full and accurate accounts of the Corporation's disbursements and receipts, shall report to the Board from time to time on the financial condition of the Corporation, and shall otherwise exercise the powers and perform the duties incident to the office of Treasurer. The Treasurer may certify or attest documents executed on behalf of the Corporation.

(e) Clerk. As required by the Corporation Act, the Corporation shall have and continuously maintain a Clerk, who shall be a resident of the State. The office of Clerk shall be ministerial in nature, and the Clerk, in his or her capacity as such, shall have no authority to engage in any policymaking function on behalf of the Corporation, or to enter into contracts or incur debts on behalf of the Corporation. The Clerk shall keep the stock transfer books and records of the meetings of shareholders and directors, and shall perform such other duties as are expressly prescribed by law. The Clerk may certify all votes, resolutions, and actions of the shareholders, the Board, and committees of the Board, and may attest all documents executed on behalf of the Corporation.

(f) Assistant Officers. Assistant Secretaries, Assistant Treasurers, and Assistant Clerks shall perform such duties as from time to time may be assigned to them by the Board or by (respectively) the Secretary, the Treasurer, or the Clerk. At the request of the Secretary, Treasurer, or Clerk, or in case of his or her absence or inability to act, any Assistant Secretary, Assistant Treasurer, or Assistant Clerk (respectively) may act in his or her place.

SECTION 5.6 Compensation. The Board or a duly authorized committee thereof may fix the compensation of each officer.

ARTICLE VI

INDEMNIFICATION

SECTION 6.1 Mandatory Indemnification of Directors and Officers. Except the extent expressly prohibited by law or by the Articles or these Bylaws, the Corporation shall in all cases indemnify any existing or former director or officer of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or other proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Board as a director, officer, trustee, partner, manager, fiduciary, employee, or agent of another corporation, partnership, limited liability company, joint venture, trust, pension or other employee benefit plan, or other enterprise, or by reason of his or her conduct in any such capacity, against expenses (including, without limitation, costs of investigation and attorneys' fees, judgments, fines, penalties, and amounts paid in settlement) actually and reasonably incurred by him or her in connection with such action, suit, or proceeding. Provided, however, that indemnification shall not be mandatory in respect of (i) any action or claim by such person against the Corporation, or against one or more directors or officers of the Corporation in their capacities as such, or (ii) any action or claim by or in the right of the Corporation against such person if such action or claim was approved, prior to the filing thereof, by the affirmative vote of at least two-thirds of the directors of the Corporation then in office.

SECTION 6.2 Permissive Indemnification. Except to the extent that indemnification is mandatory under Section 6.1 above, the Corporation may, but shall not be required to, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or other proceeding, whether civil, criminal, administrative, or investigative, by reason of the fact that he or she is or was a director, officer, employee, or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, trustee, employee, partner, manager, fiduciary, or agent of another corporation, partnership, limited liability company, joint venture, trust, pension or other employee benefit plan, or other enterprise, or by reason of his or her conduct in any such capacity, against expenses (including, without limitation, costs of investigation and attorneys' fees, judgments, fines, penalties, and amounts paid in settlement) actually and reasonably incurred by him or her in connection with such action, suit, or proceeding. Such indemnification shall be subject to any restrictions imposed by applicable law or by the Board in its discretion.

SECTION 6.3 Advance Payment of Expenses. (a) With respect to any claim for which indemnification is mandatory under Section 6.1 above, all expenses reasonably incurred by any existing or former director or officer in connection with such claim shall promptly be paid by the Corporation, even in advance of the final disposition of the action, suit, or proceeding in which such claim is asserted or threatened.

(b) With respect to any claim for which indemnification is permitted under Section 6.2 above but not mandatory under Section 6.1, expenses reasonably incurred by a person in connection with such claim may, in the discretion of the Board, be paid by the Corporation in advance of the final disposition of the action, suit, or proceeding in which such claim is asserted or threatened. The Board, in its sole discretion, may impose such conditions as it deems appropriate on any advance payment of expenses under this paragraph (b).

(c) Notwithstanding paragraphs (a) and (b) of this Section, no advance payment of Expenses shall be made hereunder unless the Corporation shall be in receipt of:

(i) A written undertaking by or on behalf of the indemnified person to repay that amount if such person is finally adjudicated not to be entitled to indemnification by the Corporation; and

(ii) A written affirmation by the indemnified person that he or she (a) acted honestly and in the reasonable belief that his or her action was in or not opposed to the best interests of the Corporation or its shareholders (or, in the case of a person serving as a fiduciary of an employee benefit plan or trust, in or not opposed to the best interests of that plan or trust or its participants or beneficiaries) and (b) with respect to any criminal action or proceeding, that he or she did not have reasonable cause to believe that his or her conduct was unlawful.

The undertaking required by clause (i) of this paragraph (c) shall be an unlimited general obligation of the person seeking the advance, but (except to the extent otherwise provided by the Board pursuant to paragraph (b) of this Section) shall not be secured and shall be accepted without reference to financial ability to make the repayment.

SECTION 6.4 Nonexclusive Remedy; Benefit. The rights provided by this Article shall not be deemed exclusive of any other right of indemnification or payment provided by contract, the Articles, vote of shareholders or directors, or otherwise. Any right of indemnity or payment arising under this Article shall continue as to a person who has ceased to hold the office or position in which such right arose; shall inure to the benefit of his or her heirs, executors, and administrators; and shall survive any subsequent amendment of this Article.

SECTION 6.5 Insurance. The Corporation may purchase and maintain insurance on behalf of itself and any person who is or was a director, officer, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, trustee, partner, manager, fiduciary, employee, or agent of another corporation, partnership, limited liability company, joint venture, trust, pension or other employee benefit plan, or other enterprise, against any liability asserted against such person and incurred by him or her in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the Corporation Act.

ARTICLE VII

CONTRACTS, BANK ACCOUNTS, ETC.

SECTION 7.1 Execution of Documents. Except as limited by law, the Articles, or these Bylaws, and unless otherwise expressly provided by any resolution of the Board, the President, acting singly, shall have authority to execute and deliver, in the name and on behalf of the Corporation, any contract, bill, note, check, deed, mortgage, bill of sale, or other instrument.

SECTION 7.2 Bank Accounts. Unless otherwise expressly provided by any resolution of the Board, the President or Treasurer, acting singly, may open, close, and maintain deposit, checking, money market, and similar accounts with banks, trust companies, and other depositories in the name of the Corporation and may purchase and sell certificates of deposit and similar instruments on behalf of the Corporation. The Board may make such special rules and regulations with respect to such activities as it deems expedient.

SECTION 7.3 Authority to Vote Shares. Unless otherwise provided by resolution of the Board, the President, any Vice President, the Secretary, and the Treasurer (in that order) shall have authority to vote (either in person or by proxy) any shares of other corporations standing in the name of the Corporation.

ARTICLE VIII

CAPITAL STOCK; CERTIFICATES

SECTION 8.1 Issuance of Shares. No officer shall have authority to cause the Corporation to issue, or to agree to issue, any shares of the Corporation, any rights or options to acquire such shares, or any instruments or indebtedness convertible into such shares, without the express authorization of the Board, which authorization shall be limited to transactions or classes of transactions specified by the Board.

SECTION 8.2 Share Certificates. Each shareholder, upon payment in full for his or her shares, shall be entitled to a certificate certifying the number of shares owned by him or her in the Corporation. No certificate shall be issued for any share until such share is fully paid. Each such certificate shall be signed in the name of the Corporation by any two officers of the Corporation. If countersigned by the Clerk, a transfer agent, or any assistant transfer agent, or if registered by a registrar, any other signature on the certificate may be a facsimile. Share certificates of the Corporation shall conform to all requirements imposed thereon by the Corporation Act or these Bylaws and shall bear such legends, if any, as the Clerk shall consider appropriate to reflect applicable restrictions on transfer.

SECTION 8.3 Lost Certificates. The Board may direct that a new certificate be issued in place of any certificate previously issued by the Corporation and alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the record or beneficial owner of such certificate. The Board may require such owner, or his or her legal representative, to give the Corporation a bond or otherwise to indemnify the Corporation against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

SECTION 8.4 Stock Transfer Procedures. Each transfer of shares of stock of the Corporation shall be made only on the stock transfer books of the Corporation and only by the record holder thereof, or by his or her duly authorized attorney-in-fact, upon surrender of the certificate or certificates of such shares properly endorsed and the payment of all taxes thereon. The person in whose name shares of stock stand on the stock transfer books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation, and the Corporation shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law; provided that whenever any transfer of shares is made for collateral security and not absolutely, such fact shall be so expressed in the entry of transfer if so requested by a written notice to the Clerk which has been executed by both the transferor and transferee.

ARTICLE IX

GENERAL PROVISIONS

SECTION 9.1 Fiscal Year. The fiscal year of the Corporation shall end on December 31 of each year, except as otherwise fixed by resolution of the Board.

SECTION 9.2 Corporate Seal. The Corporation may have a seal in such form as the Board or the Clerk may approve. Whenever it is inconvenient to use the corporate seal, a facsimile thereof may be used. Any officer of the Corporation shall have authority to affix the corporate seal, and it may be attested by his or her signature.

SECTION 9.3 Facsimile Signatures. Facsimile signatures of any officer of the Corporation may be used whenever authorized by the Board or the President. The Corporation may rely upon the facsimile signature of any person if delivered by or on behalf of such person in a manner evidencing an intention to permit such reliance.

SECTION 9.4 Inspection of Records. Except as otherwise required by law, the President and the Board shall have authority to determine the extent to which, and the manner in which, books and records of account, minutes of meetings, shareholder lists, and other documents of the Corporation shall be open to inspection by shareholders. Any such right of inspection shall be subject to such reasonable confidentiality restrictions as the President or the Board deems appropriate to protect the Corporation and its business.

SECTION 9.5 Amendment of Bylaws. Except as the Articles or these Bylaws otherwise provide, these Bylaws may be amended or repealed, and new Bylaws may be adopted, by vote of the shareholders or the Board. For any meeting at which Bylaws are to be adopted, amended, or repealed, specific notice of such proposed action shall be given, either setting out the text of the proposed new or amended Bylaw or Bylaw to be repealed, or summarizing the changes to be effected by such adoption, amendment, or repeal.

SECTION 9.6 Interpretation. Headings and captions used herein are inserted for convenience only and shall not be used to construe the scope or content of any provision. Whenever used herein, the masculine gender shall include the feminine and neuter genders, as the context requires. In the case of any conflict between the provisions of the Articles and these Bylaws, the Articles shall control. In the case of any ambiguity or other question concerning interpretation of these Bylaws, the good faith interpretation of the Board shall be binding on the Corporation and its shareholders.

Exhibit 10.12

CONFIDENTIAL SETTLEMENT AGREEMENT AND COVENANT NOT TO SUE

This Settlement Agreement ("Agreement") is effective this 25th day of August, 1998 and is entered into by and between Hasstech, Inc., having a place of business at 6985 Flanders Drive, San Diego, California 92121 (hereinafter "Hasstech"), and Intelligent Controls, Inc., having a place of business at 74 Industrial Park Road, Saco, Maine 04072 (hereinafter "INCON").

Hasstech and INCON (collectively the "Parties") intend that this Agreement shall be the full and final settlement of all claims described herein. In mutual consideration of such settlement and release of all claims relating to all the matters in the below referenced case, the Parties agree as follows:

I. BACKGROUND

1. This dispute involves Hasstech's U.S. Patent No. 5,072,621 entitled PIPELINE LEAK DETECTOR APPARATUS AND METHOD (hereafter the "621 Patent"). On October 24, 1997, Hasstech commenced a civil action against INCON in the United States District Court for the Southern District of California, Civil Action No. 97 CV 1916B (hereinafter "the Action"), in which Hasstech sought an injunction and damages for willful infringement of the "621 Patent" by INCON's manufacture, use, offer for sale and sale of its TS-LLD Electronic Line Leak Detector products.

2. In its Answer to the Complaint in the Action, INCON counterclaimed for a declaratory judgment of non-infringement and invalidity of the "621 Patent".

3. The Parties are desirous of resolving the Action at this time, and to thereby avoid the expenditure of additional time, effort and money required in protracted litigation.

II. SETTLEMENT PROVISIONS

4. INCON represents and warrants that all of its electronic line leak detector products are sold under the TS-LLD designation, and the parties agree that the TS-LLD products are the only INCON products at issue in the present litigation. As used herein, "INCON Products" will mean the existing TS-LLD electronic line leak detectors which are the subject of the Action, and nay modifications, improvements of future versions of such products, whether sold under the TS-LLD designation or any other designation.

5. For the purposes of this Agreement, an "OEM" shall mean any entity which integrates line leak detectors into a dispensing, tank monitoring, and/or line monitoring assembly for sale as a remote detector system, whether private

labeled or not. For clarity, but not intended to provide an exclusive listing of all OEM's, the term OEM shall include EBW, Environ, PetroVend, AZI, FE Petro and Red Jacket. Hasstech represents and warrants that it is not aware of any current INCON customers or distributors that would fall under the OEM definition or which would be considered an OEM customer hereunder.

6. As part of the consideration hereunder, INCON shall pay to Hasstech the total sum of One Hundred Thousand Dollars ($1000,000.00), with Fifty Thousand Dollars ($50,000.00) of that total being due immediately upon execution of this Agreement, and the remaining of Fifty Thousand Dollars ($50,000.00) due on or before February 15, 1999 (the "Second Installment"). All such payments to be made to Hasstech, Inc., by certified check, direct wire transfer, or as otherwise agreed by the Parties.

In order to provide additional security to Hasstech for the timely payment of the Second Installment, and presuming there has been no breach of any material obligation of this Agreement by Hasstech, INCON hereby separately promises that the Stipulation of Dismissal submitted by the parties and Ordered by the Court herein shall include the stipulated authority of the Court, and particularly Magistrate Judge Stiven, to impose penalties and interest for non-payment of late payment thereof.

7. INCON further agrees that, for a period of two years from the date of its execution of this Agreement, it shall not solicit sales or otherwise make sales of INCON Products, directly or indirectly through any subsidiary, affiliated or other entity over whom INCON has control or in which INCON has any ownership interest or profit sharing arrangement, to Hasstech's current Original Equipment Manufacturer (OEM) customer AZI.

8. INCON further agrees that if it sells, directly or indirectly as described in Paragraph 7, INCON Products to any OEM customer prior to the earlier of June 25, 2010 or the expiration date of the "621 Patent", it will pay to Hasstech additional sums equal to Three Percent (3%) of net sales of any and all such INCON Products sold to such OEM customers as further compensation hereunder. Net sales shall be calculated on the basis of only the electronic line leak detector component of any such INCON Products, and shall be apportioned when necessary so as not to include any ancillary system components. In order for the parties to police this provision, INCON agrees to report in writing to Hasstech on each anniversary of the Agreement if it has sold no INCON Products to OEM accounts, and will provide quarterly written reports and payments within 30 days of the end of each calendar quarter in which any INCON Product has been sold directly or indirectly to an OEM account. Hasstech shall have the right to audit, at Hasstech's own expense, via independent auditors subject to confidentiality and nondisclosure agreements, INCON's records should it have a reasonable concern that payments are due under this section and/or that payments or records provided by INCON are incomplete, inaccurate or missing. Any such audit shall be conducted during normal business hours and no more than once annually unless Hasstech provides evidence of problematic payments which justify additional auditing.

9. It is agreed that INCON's obligation to pay additional fees under Paragraph 8 hereof shall cease if a final determination of invalidity or unenforceability of the "621 Patent" is rendered and no appeal is made or no further appeal can be made from such decision, although there will be no refund or any payments already made or payable hereunder prior to that time.

10. During the Term of this Agreement, INCON agrees not to contest or otherwise challenge the existence, validity, enforceability or scope of the "621 Patent" including specifically taking part in any reexamination, or assisting others in doing so in any way or in any forum, except as required under the law and upon prior notice to Hasstech. Notwithstanding the foregoing, INCON shall have the right to challenge the existence, validity, enforceability, or scope of the "621 Patent" as a defense to any charge of infringement under that patent or in connection with any dispute that might arise under the patent as to products other than the INCON Products.

11. As consideration hereunder, Hasstech grants to INCON a covenant not to sue under the "621 Patent" with the respect to the INCON Products, INCON, and/or its customers, insurers or successors in interest, officers, directors, employees, and/or agents thereof, for making, using, offering for sale, and/or selling and for having made, used, sold, and/or offered for sale, any invention described or claimed in the "621 Patent".

12. This Agreement, including the covenant not to sue with respect to the INCON Products, is not transferrable by INCON except to a successor of the business or assets to which the INCON Products pertain. INCON agrees to notify Hasstech of any such sale of the business, and to insure that any purchaser specifically agrees to be bound by all of the obligations and provisions hereof. It is also understood that no such sale shall operate to expand the scope of the covenant not to sue, and that such covenant shall in no circumstances extend to or cover any third party products.

13. The parties agree that upon execution of this Agreement, payment as provided for in paragraph 6 hereof, they will execute and file the attached Stipulation of Dismissal with Prejudice to resolve the Action.

14. Hasstech hereby represents and warrants that it has the exclusive right to grant the present covenant not to sue under the "621 Patent, and that it controls all rights to bring suit for any and all infringements of the "621 Patent" which have occurred since the issue date of the "621 Patent" or which may occur at any time. Hasstech further represents and warrants that it has not transferred or assigned and will not, except as part of the sale of the business or assets which pertain to its rights under the "621 Patent", transfer or assign any claim whatsoever against INCON and/or its customer, insurers or successors in interest including officers, directors, employees, and agents thereof in regard to the "621 Patent". Hasstech agrees to notify INCON of any such sale of the business, and to insure that nay purchaser specifically agrees to be bound by all of the obligations and provisions hereof. Hasstech further represents and

warrants that it neither owns nor has rights under any patents or patent applications worldwide, other than the "621 Patent", that would be infringed by the TS-LLD Electronic Line Leak Detectors.

15. The obligations, terms and provisions of this Agreement shall be maintained as CONFIDENTIAL by the parties, and no public announcements or other discussions or descriptions of this arrangement shall be made other than reference to the Stipulated Dismissal and/or a statement that "the parties have amicably resolved the dispute in the form of a confidential settlement arrangement, terms of which cannot be discussed". Should either party have a legal need to issue any additional statement concerning this matter (including, for example, annual reports or other SEC filings and any press releases related to such filings), it is agreed that the exact text and particulars of the disclosure will be provided to the other party in advance.

16. Nothing in this Agreement shall be construed as either an admission by INCON of any liability, or as an admission by INCON of infringement, or as an admission by INCON that any allegation of any pleading by Hasstech in the Action is true. It is specifically understood by the Parties that the payment of consideration herein does not constitute an admission of any wrongdoing by INCON and/or its customers or insurers, including officers, directors, employees and agents thereof. Similarly, nothing in this Agreement shall be construed as either an admission by Hasstech of no liability of INCON, or as an admission by Hasstech of noninfringement, or as an admission by Hasstech that any allegation of any pleading by INCON in the Action is true.

17. The Parties hereby completely release and forever discharge each other and their respective officers, directors, agents, employees, attorney, insurers, successors, and assigns, from all claims, rights, demands, actions, obligations, liabilities and cause of action of any and every kind, nature or character, known or unknown, that they may now have or have ever had arising form, or in any way related to, the Action or any fact, transaction event, occurrence, act, failure to act, omission, misrepresentation, or other matter alleged, referenced underlying, or that could or might have been alleged in the Action or that arises out of settlement of the Action from the beginning of time to and including the effective date hereof.

18. The preceding section is a full and final release covering all known as well as unknown and unanticipated injuries, debts, claims or damages for events, transactions or occurrences prior to the date of this Settlement Agreement that arose from or are in any way related to the Action. With respect to unknown claims related to the Action, the Parties expressly waive any and all rights or benefits they may now have, or in the future may have, under any law relating to the release of unknown claims, including without limitation Section 1542 of the California Civil Code, which provides:

> A general release does not extend to claims which the creditor does not know or suspect to exist in its favor at the time of

executing the release, which if known by him must have materially affected his settlement with the debtor.

19. All notices shall be sent to the Parties at the addresses first written above. If sent to Hasstech, attention Mr. Jonathan Young, or other agent of Hasstech as he shall so appoint; if to INCON, attention to Mr. Roger Brooks, or other agent of INCON as he shall so appoint.

20. This agreement shall be governed by and interpreted in accordance with the laws of the State of California.

21. This Agreement represents the complete and entire agreement and understanding of the Parties, and there are no other agreements, warranties, inducements, promises, obligations, representations or understandings, oral or otherwise, relating to the subject matter hereof. This Agreement cannot be modified or otherwise changed except by further written agreement of the Parties.

22. The Parties agree that the representation and warranties made by them in this Agreement shall be true as to the date of execution of the Agreement with the same effect as tough made on such date.

23. Each Party shall bear its own costs and attorneys' fees in this matter.

24. This Agreement may be executed with one or more separate counterparts and by mail or facsimile, each of which when so executed, shall together constitute and be one and the same instrument.

The undersigned warrant that they have full authority to enter into this Agreement and by their signatures bind the party on whose behalf they have signed and its respective successors and assigns to the terms of this Agreement.

IN WITNESS WHEREOF, The Parties hereto intending to be bound hereby cause this Agreement to be duly executed by their duly appointed officers on the dates set forth below.

Intelligent Controls, Inc.	Hasstech, Inc.
By: /s/ ROGER E. BROOKS	By: /s/ JONATHAN YOUNG
Roger E. Brooks	Jonathan Young
Title: President & CEO	Title: President
Date: 9/3/98	Date: August 31, 1998

Exhibit 10.15C

LEASE EXTENSION AGREEMENT

AGREEMENT made this 4TH DAY of January, 1999 between APOLLO DEVELOPMENT CORP. ("Landlord") and INTELLIGENT CONTROLS, INC. ("Tenant")

WHEREAS the parties have a lease between them currently in force, covering property in the Saco, Maine Industrial Park, which lease is dated April 11, 1991, with a lease extension agreement dated March 27, 1998, with a termination date of August 15, 1999, and

WHEREAS the parties desire to extend the term of said lease, as set forth herein,

NOW THEREFORE in consideration of the mutual promises herein made, the parties agree that the termination date of said lease shall be extended to October 31, 2000. During the extension period the rent shall be $5,590.00 per month, payable monthly in advance.

The period for exercise of the option to purchase the leased property (set forth in paragraph 20 of said original lease) is also extended to the new lease termination date of October 31, 2000. The 2% increase factor in the option purchase price shall be computed over the entire period (including the extension term) as applicable.

In all other respects the lease terms are ratified and confirmed.

Executed at Saco, Maine, on the above date.

Witnessed by:

/s/ SHARON BINETTE

APOLLO DEVLEOPMENT CORP.

by: /s/ CLIFFORD A. PURVIS

Its Treasurer Landlord

/s/SHARON BINETTE

Its President Tenant

INTELLIGENT CONTROLS, INC.

by: /s/ ROGER E. BROOKS

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

INCON International, Inc. a Maine corporation

INCON International FSC, Inc. a Barbados corporation

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement of Intelligent Controls, Inc. on Form S-8 of our report dated February 5, 1999, on our audits of the financial statements of Intelligent Controls, Inc. as of December 26, 1998 and December 27, 1997, and for the years then ended, which report is included in this Annual Report on Form 10-KSB.

/s/ PRICEWATERHOUSECOOPERS L.L.P.

Portland, Maine
March 26, 1999

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