SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2003-02-10** | Period of Report: **2002-09-28**
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FILER

BEI TECHNOLOGIES INC

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

FORM 10-K/A

AMENDMENT NO. 1

[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended September 28, 2002 or

[_] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 0-22799

B E I T E C H N O L O G I E S, I N C.
(Exact name of Registrant as specified in its charter)

Delaware	94-3274498
State or other jurisdiction of incorporation or organization	(I.R.S. Employer Identification No.)

One Post Street, Suite 2500
San Francisco, California 94104
(Address of principal executive officers) (Zip code)

(415) 956-4477
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $.001 par value

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

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

The approximate aggregate market value of the voting stock held by non-affiliates of the Registrant as of December 11, 2002 was $160,941,014(A). As of December 11, 2002, 14,597,591 shares of Registrant's Common Stock were outstanding.

(A) Based upon the closing sale price of the Common Stock on December 11, 2002 as reported on the NASDAQ National Market System. Excludes 3,436,633 shares of Common Stock held by directors, executive officers and stockholders whose ownership exceeds ten percent of Common Stock outstanding on December 11, 2002. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of Registrant, or that such person is controlled by or under common control with Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Registrant's Proxy Statement with respect to its 2003 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission is incorporated by reference into Part III, Items 10, 11, 12 and 13 of this report.

EXPLANATORY NOTE TO AMENDMENT NO. 1

Amendment No. 1 is filed only to amend Item 15(d) to provide the audited financial statements of OpticNet, Inc. ("OpticNet"), as required by Item 3-09 of Regulation S-X promulgated by the Securities and Exchange Commission (the "SEC"). OpticNet's financial statements were filed pursuant to an extension

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available under Rule 12b-25 promulgated by the SEC under the 1934 Exchange Act, as amended. Except for such audited financial statements, all information contained in the original Report on Form 10-K filed on December 23, 2002 has not been updated or amended by this Amendment No. 1.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

The following documents are filed as part of this Form 10-K/A.

<TABLE>
<CAPTION>

Page references refer to the page number in the Registrant's Annual Report on Form 10-K filed on December 23, 2002.

(a)(2) Index to Financial Statement Schedule

The following Consolidated Financial Statement Schedule of BEI Technologies, Inc. for each of the years in the period ended September 28, 2002 is filed as part of this Form 10-K/A:

</TABLE>

Page references above refer to the page number in the Registrant's Annual Report on Form 10-K filed on December 23, 2002. Schedules not listed above have been omitted because they are not applicable or are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes thereto.

(a)(3) Listing of Exhibits

Exhibit Numbers	Description	Footnote
2.1	Distribution Agreement between BEI Electronics, Inc. and BEI Technologies, Inc.	i
2.2	Corporate Services Agreement between BEI Technologies, Inc. and BEI Electronics, Inc.	i
2.3	Tax Allocation and Indemnity Agreement between BEI Electronics, Inc. and BEI Technologies, Inc.	i
2.4	Assumption of Liabilities and Indemnity Agreement between BEI Electronics, Inc. and BEI Technologies, Inc.	i
2.5	Technology Transfer and License Agreement by and between BEI Electronics, Inc. and BEI Technologies, Inc.	i

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2.6	Trademark Assignment and Consent Agreement by and between BEI Electronics, Inc. and BEI Technologies, Inc.	i
2.7	Agreement Regarding Certain Representations and Covenants by and between BEI Electronics, Inc. and BEI Technologies, Inc.	i
3.1	Certificate of Incorporation of BEI Technologies, Inc.	i
3.2	Bylaws of BEI Technologies, Inc.	i
3.3	Registrant's Certificate of Designation of Series A Junior Participating Preferred Stock (filed as Exhibit 99.3 hereto)	i
4.1	Specimen Common Share Certificate	i
4.2	Certificate of Incorporation of BEI Technologies, Inc. (filed as Exhibit 3.1 hereto)	i
4.3	Bylaws of BEI Technologies, Inc. (filed as Exhibit 3.2 hereto)	i
4.4	Registrant's Certificate of Designation of Series A Junior Participating Preferred Stock (filed as Exhibit 99.3 hereto)	i

4.5	Form of Rights Certificate (filed as Exhibit 99.4 hereto)	i
10.1 *	Registrant's 1997 Equity Incentive Plan and forms of related agreements	i
10.2 *	Executive Change in Control Benefits Agreement between BEI Technologies, Inc. and Certain Named Executive Officers	i
10.5	Note Purchase Agreement dated November 16, 1998 by and between BEI Technologies, Inc., BEI Sensors & Systems Company, Inc., Connecticut General Life Insurance Company and Allstate Life Insurance Company	ii
10.6	Amendment to Tax Allocation and Indemnity Agreement between BEI Electronics, Inc. and BEI Technologies, Inc.	ii
10.9	Development and Supply Agreement, dated April 26, 2001, by and between Systron Donner Inertial Division and Continental Teves AG & Co.	iv
10.10	Amendment to Note Purchase Agreement as amended as of March 30, 2002, by and between BEI Technologies, Inc., BEI Sensors & Systems Company, Inc., Connecticut General Life Insurance Company and Allstate Life Insurance Company	v
10.11	Credit Agreement dated August 14, 2002, by and between BEI Technologies, Inc., BEI Sensors & Systems Company, Inc. and Union Bank of California	vi
10.12	Second Amendment to Note Purchase Agreement and Waiver dated December 20, 2002, by and between BEI Technologies, Inc., BEI Sensors & Systems Company, Inc., Connecticut General Life Insurance Company and Allstate Life Insurance Company.	vi
21.1	Subsidiaries of the Registrant	ii
23.1	Consent of Ernst & Young LLP, Independent Auditors	
99.1	BEI Technologies, Inc. Information Statement dated September 24, 1997	ii
99.2	Rights Agreement dated as of September 11, 1997 among BEI Technologies, Inc. and ChaseMellon Shareholder Services, L.L.C.	i

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99.3	Registrant's Certificate of Designation of Series A Junior Participating Preferred Stock	i
99.4	Form of Rights Certificate	i
99.5	CEO Certification Pursuant to 18 U.S.C. as adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002	
99.6	CFO Certification Pursuant to 18 U.S.C. as adopted Pursuant to Section 906 of the Sarbanes - Oxley Act of 2002	

(i) Incorporated by reference. Previously filed as an exhibit to the Registrant's Information Statement on Form 10 (File No. 0-22799) as filed on September 22, 1997.

(ii) Incorporated by reference. Previously filed as an exhibit to the Form 10-K (File No. 0-22799) as filed on December 30, 1998.

(iii) Incorporated by reference. Previously filed as an exhibit to the Form 10-Q (File No. 000-22799) as filed on February 13, 2001.

(iv) Incorporated by reference. Previously filed as an exhibit to the Form 10-Q (File No. 000-22799) as filed on August 14, 2001.

(v) Incorporated by reference. Previously filed as an exhibit to the Form 10-Q (File No. 000-22799) as filed on May 13, 2002.

(vi) Incorporated by reference. Previously filed as an exhibit to the Form 10-K (File No. 000-22799) as filed on December 23, 2002.

* Items which are management contracts or compensatory plans or arrangements required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.

(b) No reports on Form 8-K were filed by the Company during fiscal 2002.

(c) Index to financial statement schedules for the financial statements of subsidiaries not consolidated and fifty-percent-or-less-owned persons:

The following Financial Statement Schedule of OpticNet, Inc. for each of the years in the period ended September 28, 2002 is filed as part of this Form 10-K/A:

Schedule III Financial Statements of OpticNet, Inc. S-3

SIGNATURES

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

BEI TECHNOLOGIES, INC.
By: /s/ Robert R. Corr

Robert R. Corr
Vice President, Secretary, Treasurer and Controller
Date February 7, 2003

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

<TABLE>
<CAPTION>

Signature	Title	Date
/s/ Charles Crocker Charles Crocker	Chief Executive Officer and Chairman of the Board Of Directors (Principal Executive Officer)	February 7, 2003
*	President, Chief Operating Officer	February 7, 2003

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Dr. Asad M. Madni	and Director	
/s/ John LaBoskey John LaBoskey	Senior Vice President and Chief Financial Officer	February 7, 2003
/s/ Robert R. Corr Robert R. Corr	Vice President, Secretary, Treasurer and Controller (Principal Accounting Officer)	February 7, 2003
* Richard M. Brooks	Director	February 7, 2003
* George S. Brown	Director	February 7, 2003
* C. Joseph Giroir, Jr.	Director	February 7, 2003
* Dr. William G. Howard	Director	February 7, 2003
* Gary D. Wrench	Director	February 7, 2003
*By: /s/ Charles Crocker Charles Crocker	Attorney-in-Fact (Signing under the authority of a Power of Attorney previously filed with the Securities and Exchange Commission)	February 7, 2003

</TABLE>

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER

I, Charles Crocker, certify that:

1. I have reviewed this annual report on Form 10-K/A of BEI Technologies, Inc.;

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

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

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

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

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

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Date"); and

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

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

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

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

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated February 7, 2003

/s/ Charles Crocker

Charles Crocker
Chief Executive Officer and Chairman of the Board of Directors

CERTIFICATION OF
CHIEF FINANCIAL OFFICER

I, John LaBoskey, certify that:

1. I have reviewed this annual report on Form 10-K/A of BEI Technologies, Inc.;

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

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

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

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

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

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

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

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

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

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated February 7, 2003

/s/ John LaBoskey

John LaBoskey
Senior Vice President and Chief Financial Officer

SCHEDULE III

OpticNet, Inc.
(a development stage company)
Balance Sheets

	September 28, 2002	September 29, 2001
Assets		
Current assets:		
Cash and cash equivalents	$ 4,881	$ 828,489
Trade receivables, less customer allowance for doubtful accounts (2002--$57,080; 2001--$0) ..	--	99,720
Prepaid expenses	3,263	18,528
Other current assets	324	62,103
Total current assets	8,468	1,008,840
Property and equipment, net	--	17,984
Deposits	728	22,025
	$ 9,196	$1,048,849

See accompanying notes.

OpticNet, Inc.
(a development stage company)
Balance Sheets (cont.)

<TABLE>
<CAPTION>

<S>	September 28, 2002 <C>	September 29, 2001 <C>
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 13,713	$ 132,574
Accrued expenses and other liabilities	40,394	324,174
Other related party liabilities	214,078	--
Note payable to related party	2,656,338	1,166,608
Customer advances	--	25,000
Total current liabilities	2,924,523	1,648,356
Deferred rent	--	14,670

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Stockholders' deficit:		
Preferred stock (authorized 22,000,000 shares):		
Series A convertible preferred stock:		
($0.0001 par value; 2,000,000 issued and outstanding and liquidation preference of $1,000,000 at September 28, 2002, and September 29, 2001)	200	200
Common stock:		
($0.0001 par value; authorized 50,000,000 shares; issued and outstanding; September 28, 2002--6,092,104; September 29, 2001--6,311,428)	235	139
Equity funding from a related party, see Note 13	1,815	--
Additional paid-in capital	2,943,118	1,098,500
Deferred stock-based compensation	(48,765)	(32,515)
Deficit accumulated during the development stage	(5,811,930)	(1,680,501)
Total stockholders' deficit	(2,915,327)	(614,177)
	$ 9,196	$ 1,048,849

</TABLE>

See accompanying notes.

OpticNet, Inc.
(a development stage company)
Statements of Operations

<TABLE>
<CAPTION>

<S>	Year Ended September 28, 2002 <C>	Year Ended September 29, 2001 <C>	Period from February 23, 2000 (inception) to September 30, 2000 <C>	Period from February 23, 2000 (inception) to September 28, 2002 <C>
Revenues	$ 112,500	$ 499,000	$ --	$ 611,500
Cost of revenues	83,801	259,640	--	343,441
Gross profit	28,699	239,360	--	268,059
Operating expenses:				
Selling, general and administrative	1,279,239	868,769	15,000	2,163,008
Research and development	2,759,323	971,952	101,564	3,832,839
Total operating expenses	4,038,562	1,840,721	116,564	5,995,847
Loss from operations	(4,009,863)	(1,601,361)	(116,564)	(5,727,788)
Other income (expense):				
Other income	3,897	50,458	10,818	65,173
Interest expense	(125,463)	(23,852)	--	(149,315)
Other income (expense), net	(121,566)	26,606	10,818	(84,142)
Net loss accumulated in the development stage	$(4,131,429)	$(1,574,755)	$ (105,746)	$(5,811,930)
Basic and diluted net loss per share	$ (0.74)	$ (0.32)	$ (0.15)	$ (1.36)
Weighted average shares used in computation of basic and diluted loss per share	5,586,971	4,989,132	683,765	4,266,774

</TABLE>

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See accompanying notes.

OpticNet, Inc.
(a development stage company)
Statements of Stockholders' Deficit

<TABLE>
<CAPTION>

	Preferred Stock		Common Stock		Treasury Stock
	Shares	Amount	Shares	Amount	Shares
<S>	<C>	<C>	<C>	<C>	<C>
Balance at February 23, 2000 (inception)	--	$--	--	$--	--
Net loss for the period ending September 30, 2000					
Issuance of restricted Nonvoting common Stock in exchange for cash in June 2000 at $0.035 per share			1,285,712	129	
Issuance of restricted Nonvoting common Stock in June 2000 at $0.035 per share (subject to repurchase right by the company, lapsing in exchange for continued service)			1,652,572		
Issuance of convertible preferred stock for cash to BEI Technologies in July 2000 at $0.50 per Share	2,000,000	200			
Amortization of deferred stock Compensation					
Balance at September 30, 2000	2,000,000	200	2,938,284	129	--
Net loss					
Issuance of voting Common stock to BEI Technologies in November 2000 for intellectual property rights and technology			3,616,000		
Repurchase of restricted common stock in January 2001			(342,856)		
Issuance of restricted nonvoting common stock in exchange for cash in February 2001 at $0.08 per share			100,000	10	
Amortization of deferred stock compensation					
Balance at September 29, 2001	2,000,000	200	6,311,428	139	--
Net loss					
Equity funding from a related party, see Note 13					
Treasury stock			(967,056)		967,056
Issuance of restricted nonvoting common stock in August/September 2002 at $0.04 per share			930,000	93	
Repurchase of restricted common stock			(205,954)		
Stock options exercised			23,686	3	
Amortization of deferred stock compensation					
Balance at September 28, 2002	2,000,000	$ 200	6,092,104	$ 235	967,056

</TABLE>

See accompanying notes.

OpticNet, Inc.

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(a development stage company)
Statements of Stockholders' Deficit (Cont.)

<TABLE>
<CAPTION>

	Equity Funding from a Related Party	Additional Paid-In Capital	Deferred Stock-Based Compensation	Deficit Accumulated During the Development Stage	Total Stockholders' Deficit
<S>	<C>	<C>	<C>	<C>	<C>
Balance at February 23, 2000 (inception)	$ --	$ --	$ --	$ --	$ --
Net loss for the period ending September 30, 2000				(105,746)	(105,746)
Issuance of restricted Nonvoting common Stock in exchange for cash in June 2000 at $0.035 per share		44,870			44,999
Issuance of restricted Nonvoting common Stock in June 2000 at $0.035 per share (subject to repurchase right by the company, lapsing in exchange for continued service)		57,840	(57,840)		
Issuance of convertible preferred stock for cash to BEI Technologies in July 2000 at $0.50 per Share		999,800			1,000,000
Amortization of deferred stock Compensation			4,820		4,820
Balance at September 30, 2000	--	1,102,510	(53,020)	(105,746)	44,073
Net loss				(1,574,755)	(1,574,755)
Issuance of voting Common stock to BEI Technologies in November 2000 for intellectual property rights and technology					
Repurchase of restricted common stock in January 2001		(12,000)	12,000		
Issuance of restricted nonvoting common stock in exchange for cash in February 2001 at $0.08 per share		7,990			8,000
Amortization of deferred stock compensation			8,505		8,505
Balance at September 29, 2001	--	1,098,500	(32,515)	(1,680,501)	(614,177)
Net loss				(4,131,429)	(4,131,429)
Equity funding from a related party, see Note 13	1,815	1,812,827			1,814,642
Treasury stock					
Issuance of restricted nonvoting common stock in August/ September 2002 at $0.04 per share		37,107	(37,200)		
Repurchase of restricted common stock		(7,208)	7,208		
Stock options exercised		1,892			1,895
Amortization of deferred stock compensation			13,742		13,742
Balance at September 28, 2002	$ 1,815	$ 2,943,118	$ (48,765)	$(5,811,930)	$(2,915,327)

</TABLE>

See accompanying notes.

OpticNet, Inc.
(a development stage company)
Statements of Cash Flows

<TABLE>
<CAPTION>

	Period from February 23, 2000	Period from February 23, 2000

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<S>

	Year Ended September 28, 2002	Year Ended September 29, 2001	(inception) to September 30, 2000	(inception) to September 28, 2002
Operating activities:				
Net loss	$(4,131,429)	$(1,574,755)	$ (105,746)	$(5,811,930)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation	21,228	3,264	--	24,492
Amortization	13,742	8,505	4,820	27,067
Net changes in operating assets and liabilities:				
Trade receivables	99,720	(99,720)	--	--
Prepaid expenses	15,265	(18,528)	--	(3,263)
Other current assets	61,779	(62,103)	--	(324)
Accounts payable	(118,861)	131,492	1,082	13,713
Accrued and other liabilities	(283,780)	319,432	4,742	40,394
Customer advances	(25,000)	(25,000)	50,000	--
Deferred rent	(14,670)	14,670	--	--
Other related party liabilities	214,078	--	--	214,078
Note payable to related party	--	(12,906)	12,906	--
Net cash used in operating activities	(4,147,928)	(1,315,649)	(32,196)	(5,495,773)
Investing activities:				
Purchases of property and equipment	(3,244)	(21,248)	--	(24,492)
Deposits	21,297	(22,025)	--	(728)
Net cash provided by (used in) investing activities	18,053	(43,273)	--	(25,220)

</TABLE>

See accompanying notes.

OpticNet, Inc.
(a development stage company)
Statements of Cash Flows (cont.)

<TABLE>
<CAPTION>
<S>

	Year Ended September 28, 2002	Year Ended September 29, 2001	Period from February 23, 2000 (inception) to September 30, 2000	Period from February 23, 2000 (inception) to September 28, 2002
Financing activities:				
Proceeds from borrowing on line of credit from related party	$ 1,489,730	$ 1,330,601	$ --	$ 2,820,331
Principal payments on line of credit from related party	--	(163,993)	--	(163,993)
Proceeds from issuance of preferred stock, net	--	--	1,000,000	1,000,000
Proceeds from equity funding from a related party	1,814,642	--	--	1,814,642
Issuance of common stock	1,895	8,000	44,999	54,894
Net cash provided by financing activities	3,306,267	1,174,608	1,044,999	5,525,874
Net increase (decrease) in cash and cash equivalents	(823,608)	(184,314)	1,012,803	4,881
Cash and cash equivalents at beginning of period	828,489	1,012,803	--	--
Cash and cash equivalents at end of period	$ 4,881	$ 828,489	$ 1,012,803	$ 4,881
Supplemental Disclosure of Non Cash Items:				
Grants of restricted stock	$ 37,200	$ --	$ 57,840	$ 95,040
Contribution of treasury stock	14,720	--	--	14,720
Repurchase of restricted stock	$ 7,208	$ 12,000	$ --	$ 19,208

</TABLE>

See accompanying notes.

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OpticNet, Inc.
(a development stage company)
Notes to Financial Statements
September 28, 2002

1. Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation

OpticNet, Inc. ("OpticNet" or the "Company") was incorporated on February 23, 2000 in the State of Delaware, as a majority owned subsidiary of BEI Technologies, Inc. ("BEI Technologies"). From its inception (February 23, 2000) through December 31, 2000, OpticNet operated as a controlled subsidiary of BEI Technologies. BEI Technologies accumulated the costs associated with OpticNet's operation in the period from February 23, 2000 through December 31, 2000 including all expenses directly attributable to OpticNet and an allocation of the costs of facilities, salaries and employee benefits based on relative headcount. These allocations were based on assumptions that management believes are reasonable under the circumstances. However, these allocations and estimates are not necessarily indicative of the costs that would have resulted if OpticNet had been operated on a stand-alone basis during this period.

As of October 30, 2000, BEI Technologies distributed 3,578,387 shares to BEI Technologies stockholders ("Distribution"), substantially all of the Company's voting common stock held by BEI Technologies. In the Distribution, each holder of record of BEI Technologies common stock as of October 30, 2000 received one share of OpticNet common stock for every two shares of BEI Technologies common stock held, and cash in lieu of any fractional share of OpticNet common stock. After the Distribution, BEI Technologies continued to hold securities of the Company in the form of convertible preferred and common stock, representing an aggregate ownership interest of approximately 25% in the Company.

The principal focus of the Company's business is to develop, manufacture and market fiber optic components and subsystems for the telecommunications market.

OpticNet's primary activities since inception have been devoted to developing its product offerings and related technologies, recruiting key management and technical personnel and raising capital to fund operations. OpticNet has not recognized significant revenues since inception. All revenue recognized to date consisted of engineering work performed under engineering agreements with unaffiliated customers and not from the sale of fiber optic components and subsystems. As a result, the accompanying financial statements are presented in accordance with Financial Accounting Statement ("FAS") No. 7, "Accounting and Reporting by Development Stage Enterprises."

OpticNet's operations are subject to significant risks and uncertainties, including competitive, financial, developmental, operational, growth and expansion, technological, regulatory and other risks associated with an emerging business.

These financial statements have been prepared assuming that the Company will continue as a going concern. Since its inception, the Company has had recurring operating losses and negative cash flows from operations and has an accumulated deficit of $5.8 million at September 28, 2002. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

During fiscal 2002, the Company continued to be unsuccessful in attracting outside financing despite management's efforts and continued operations on a reduced basis. Management and the Company's board of directors decided in March 2002 to reduce the level of incremental spending for research and development and to reduce operations to a level that will solely support the current customer base. Management's plan to enable the Company to continue as a going concern calls for the Company's operations to be frozen at a minimal level, sufficient to support current product delivery commitments. The Company reduced its fixed cost base to an absolute minimum and no longer maintains any employees of its own. The majority of operating costs are paid by a related party which shares the Hayward facility and from whom engineering and other services are rented on an as-required basis. The cash outlay for the Company's portion of these costs are recorded as additional investment in the Company by the related party. Future operating expenses are expected to

be funded by product and prototype revenue under existing contracts. In addition, new prototype or product contracts will not be initiated if these

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contracts cannot generate positive cash flows within the next 12 months. Management believes that additional funding of less than $1.0 million will enable the Company to continue on a reduced basis as a going concern through September 30, 2003 and that such funding will be available from the related party, if required. Management continues to seek additional equity financing from new and existing sources on an opportunistic and as-available basis. Management plans to defer substantially all research and development activity in the absence of additional equity financing. Although management is confident in its ability to execute its plan to enable the Company to continue as a going concern there is no assurance that the Company will be able to reduce expenditures sufficiently, estimate future contract costs accurately, or secure the necessary financing, in order to continue operations.

These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

During the third and fourth quarters of fiscal 2002, BEI Technologies provided the Company with approximately $1.8 million in financing, which was advanced with the understanding that such amount would be converted into a form of nonvoting equity in the Company.

Effective September 28, 2002, the Company and BEI Technologies had determined the Company would authorize and issue to BEI Technologies a series of nonvoting preferred stock. In November 2002, the Company issued a total of 18,146,420 shares of the Company's newly authorized nonvoting Series B Preferred Stock to BEI Technologies, in consideration of the approximately $1.8 million advanced.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest September 30. Fiscal years 2002 and 2001 each contained 52 weeks. The period from February 23, 2000 (inception) to September 30, 2000 contained 32 weeks.

Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances.

Cash and Cash Equivalents

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

Concentrations of Credit Risk

The Company's engineering agreements have been with three customers located in the United States. Historically, there have been no credit losses with these customers. In addition, as the Company primarily deals with start-up companies in relation to delivery of prototype units, there may be disputes regarding the performance of the prototypes and payment not received.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents are held by various domestic financial institutions with a high credit standing. The Company has not experienced any losses on its cash or cash equivalents.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided in amounts sufficient to amortize the cost of such assets over their estimated useful lives, which range from three to five years, using the straight-line method for structures and accelerated or straight-line methods for equipment. Leasehold improvements are amortized over the shorter of the lease term or their estimated useful lives.

Long-Lived Assets

The Company recognizes impairment losses in accordance with FAS No. 121,

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"Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of". Long-lived assets, including property and equipment and other assets, are reviewed and impairment recognized when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of the assets. Indicators of impairment were present during the periods presented. Total net realizable fair value of all long-lived assets at September 28, 2002 was $728.

Revenue Recognition

To date, the Company has not recognized revenue related to non-prototype product offerings. All revenue recognized to date consisted of engineering work performed under engineering agreements with unaffiliated customers. Revenue for such engineering work is recognized based on customer acceptance of the achievement of milestones in the engineering agreement.

Research and Development Expense

The Company's products are highly technical in nature and require a significant level of research and development effort. Research and development costs are charged to expense as incurred in accordance with FAS No. 2, "Accounting for Research and Development Costs." Payments and receivables recorded from customers for the delivery under contracts of prototype units of $187,000, $210,000, and $397,000 were offset against research and development expense in the statements of operations for fiscal years 2002 and 2001 and from inception through fiscal 2002, respectively.

Net Loss Per Share

Basic and diluted loss per share is computed using the weighted average number of shares outstanding. The effect of convertible preferred stock, unvested stock and outstanding stock options is antidilutive and, accordingly, is excluded from diluted loss per share.

Recent Accounting Pronouncements

In July 2001, the FASB issued FAS No. 142 ("FAS 142"), "Goodwill and Other Intangible Assets." FAS 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Thus amortization of goodwill, including goodwill recorded in past transactions, will cease upon adoption of this statement. FAS 142 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted for entities with fiscal years beginning after March 15, 2001. The Company chose to adopt FAS 142 for its fiscal year beginning September 30, 2001. The adoption of this standard did not have a significant impact on the Company as it has no goodwill.

In October 2001, the FASB issued FAS No. 144 ("FAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets", which is effective for fiscal periods beginning after December 15, 2001. FAS 144 provides a single accounting model for, and supersedes previous guidance on, accounting and reporting for the impairment/disposal of long-lived assets. FAS 144 sets new criteria for the classification of assets held-for-sale and changes the reporting of discontinued operations. The Company does not believe that the adoption of FAS 144 will have a significant impact on its financial statements.

In June 2002, the FASB issued FAS No. 146 ("FAS 146") "Accounting for Costs Associated with Exit or Disposal Activities." FAS 146 is effective for exit or disposal activities that are initiated after December 31, 2002. This standard addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. FAS 146 also requires that liabilities recorded in connection with exit plans be initially measured at fair value. The Company does not believe the adoption of FAS No. 146 will have a material impact on its financial statements.

2. Transactions with Related Parties

On October 6, 2000, the Company and BEI Technologies entered into a Technology Transfer and Distribution Agreement (the "Distribution Agreement") whereby BEI Technologies contributed to the Company certain assets and intellectual property related to the fiber optic components technology developed by BEI Technologies and BEI Technologies' majority-owned subsidiary, SiTek, Inc. ("SiTek") in exchange for 3,616,000 shares of the Company's common stock. BEI Technologies later distributed 3,578,387 of these shares to its stockholders on November 21, 2000 in connection with the Company's separation from BEI Technologies.

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In connection with the Distribution Agreement, on October 6, 2000, the Company and SiTek entered into a License and Technical Assistance Agreement whereby Sitek agreed to license certain technology to the Company, assist the Company in certain research and development efforts following the Distribution and also fabricate and supply certain components utilized in the Company's products. Further, Sitek granted to the Company a perpetual, royalty free, worldwide, exclusive license to develop, make, use and sell products within the field of telecommunications data transmission utilizing technology now possessed or later developed by SiTek, and the Company has granted to SiTek a corresponding perpetual, royalty free, worldwide, exclusive license to develop, make, use and sell products outside of the Company's defined market utilizing technology now possessed or later developed by the Company. This agreement shall continue in effect for five years and automatically renew thereafter for consecutive one-year terms unless either party gives written notice of termination.

On October 27, 2000, the Company and BEI Technologies entered into an InterCompany Services Agreement (the "Services Agreement") whereby BEI Technologies agreed to make available to the Company certain office and facility space, personnel support and supervision, financial and administrative services, record-keeping functions and other assistance, with BEI Technologies being reimbursed for the costs and expenses incurred in connection with the provision of these services to OpticNet. Charges for these services were allocated to the Company based upon usage, headcount and other methods that management believes to be reasonable. These allocations totaled $50,000 for fiscal 2002. In the fiscal quarter ended June 29, 2002, BEI Technologies agreed to suspend charges for the third and fourth quarters of fiscal 2002 and future quarters' service charges, due to the Company's inability to obtain significant strategic partners or third party financing and reduced services to a minimal level.

The Services Agreement further provided for a line of credit from BEI Technologies to the Company for up to $2.0 million with interest at prime plus 1.5%, expiring on September 28, 2002, unless extended by mutual agreement of the parties. During fiscal 2002, BEI Technologies increased this line of credit by $1.0 million. As of June 29, 2002 and September 28, 2002, the Company had outstanding borrowings totaling approximately $2.7 million on this line of credit. During the fiscal quarter ended June 29, 2002, the Company was informed by BEI Technologies that no further advances would be made to the Company under this line of credit beyond the approximately $2.7 million funded as of March 30, 2002. During October 2002, BEI Technologies extended the maturity date of the line of credit to December 31, 2002. To maintain sufficient liquidity in the future and to fund operations, the Company will need to obtain additional financing, which may be on unfavorable terms in light of the Company's credit position.

On September 28, 2001 the Company entered into a general equipment sublease agreement with BEI Technologies as the lessor, which is subordinate to a master lease agreement entered into by BEI Technologies as the lessee. On September 28, 2001, December 20, 2001 and March 28, 2002, the Company executed equipment lease schedules under the general equipment sublease with BEI Technologies. The total value of the scheduled equipment under the sublease agreement was approximately $7.0 million, with an initial lease term of 36 months. Rental payments are due on a quarterly basis and the amount determined by the Company's level of usage of the equipment, the cost of the equipment and applicable interest. Payments due for fiscal 2002 were approximately $660,000. Due to reduced usage of the equipment during the last 6 months of fiscal 2002, and expected reduced usage in the future, past payments may not be indicative of expected future payments.

The Company originally entered into a sublease agreement in October 2001 with BEI Technologies for a 15,571 square feet facility for administration, research and development and manufacturing activities in Hayward, California, expiring December 2005. As of March 30, 2002, the Company, in recognition of its inability to obtain significant strategic partners or third party financing, concluded it was necessary to reduce operating costs. The Company agreed with BEI Technologies that this reduction in operations would lower usage of the equipment and the subleased facilities described above. Accordingly, the annual lease payments to BEI Technologies have been prorated beginning March 31, 2002, based on the portion of the facilities the Company requires to support its current customers.

In the six months ended September 28, 2002, BEI Technologies advanced an additional $1.8 million to the Company. Effective September 28, 2002, the Company and BEI Technologies had determined the Company would authorize and issue to BEI Technologies a series of nonvoting preferred stock. In November 2002, the Company issued a total of 18,146,420 shares of the Company's newly authorized nonvoting Series B Preferred Stock to BEI Technologies, in consideration of the approximately $1.8 million advanced noted above. See Note 13.

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All of the arrangements outlined above were negotiated by related parties and may not represent transactions at arms length and the Company may not be able to obtain terms as favorable with third parties if and when the arrangements with BEI Technologies come to an end.

3. Property and Equipment

Property and equipment consists of the following:

	September 28, 2002	September 29, 2001
Machinery and equipment	$14,561	$13,403
Leasehold improvements	9,931	7,845
	24,492	21,248
Less accumulated depreciation and amortization ..	24,492	3,264
Property and equipment, net	$ --	$17,984

No equipment was capitalized under capital leases at September 28, 2002 and September 29, 2001.

4. Accrued Expenses and Other Liabilities

	September 28, 2002	September 29, 2001
Employee compensation	$ --	$140,815
Vacation	--	56,542
Accrued professional fees	40,394	103,861
Interest	--	21,852
Other	--	1,104
Total accrued expenses and other liabilities .	$ 40,394	$324,174

5. Leasing Arrangements

The Company leases its facility and certain property and equipment under related party leasing arrangements, see Note 2, that have been accounted for as operating leases in the accompanying financial statements, according to the terms of such arrangements. As of March 30, 2002, the Company, in recognition of its inability to obtain significant strategic partners or third party financing, concluded it was necessary to reduce operating costs. The Company agreed with its lessor that this reduction in operations would lower usage of the equipment and the subleased facilities described above. Accordingly, the annual lease payments have been prorated beginning March 31, 2002, based on the portion of the facilities the Company requires to support its current customers.

The Company recognized rent expense under operating leases of approximately $129,000 and $328,000 for the year ended September 28, 2002 and the period from February 23, 2000 (inception) to September 28, 2002, respectively. Additionally, the Company recognized rent expense under operating leases of approximately $199,000 for the year ended September 29, 2001.

On September 28, 2001, December 20, 2001 and March 28, 2002 the Company entered into equipment sublease agreements with BEI Technologies, as described in Note 2.

The Company rents office space used for administrative purposes in San Francisco, California from BEI Technologies under the Company's Services Agreement described in Note 2. The monthly rental payments associated with these facility rental arrangements are subsumed into the Company's total monthly payment under the Services Agreement. The Company also leases space used for research and development and manufacturing activities in Hayward, California from BEI Technologies under a sublease agreement described in Note 2. The average annual rental payment under the sublease agreement is approximately $11,000.

6. Note Payable to Related Party

During fiscal 2001, the Company entered into a line of credit agreement with BEI Technologies, a minority investor. Under the terms of the agreement, BEI Technologies has made available to the Company from time to time until December 31, 2002, an amount not to exceed at any time the aggregate principle amount of

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$3.0 million, as amended. The Company's obligation to repay the loans outstanding is due in full on December 31, 2002, unless extended by mutual agreement of the parties. During the fiscal quarter ended June 29, 2002, the Company was informed by BEI Technologies that no further advances would be made to the Company under this line of credit beyond the approximately $2.7 million funded as of March 30, 2002 in view of the Company's inability to obtain outside financing to date and other general indications of investor disaffection with businesses in the telecommunications market. Borrowings outstanding on the line of credit were as follows:

<TABLE>
<CAPTION>

	September 28, 2002	September 29, 2001
<S>	<C>	<C>
Unsecured revolving promissory note from BEI Technologies due 12/31/02, at a rate of prime plus 1.5% (6.25% and 7.5% in fiscal 2002 and 2001, respectively)	$2,656,338	$1,166,608
	$2,656,338	$1,166,608

</TABLE>

No interest was paid during fiscal year 2002, fiscal year 2001 or in the period from February 23, 2000 (inception) to September 30, 2000. Accrued interest expense was approximately $149,000 and $24,000 at September 28, 2002 and September 29, 2001, respectively. The interest payable of approximately $149,000 at September 28, 2002 was recorded as an other related party liability.

7. Contingencies

The Company has pending various legal actions arising in the normal course of business. Management believes that none of these legal actions, individually or in the aggregate, will have a material impact on the Company's business, financial condition or operating results. The Company is a codefendant in a dispute with a former employee, which at September 28, 2002, cannot be reasonably estimated to the future financial impact. The Company believes this claim has no merit and is rigorously defending the allegation.

8. Stockholders' Equity Deficit

Series A Convertible Preferred Stock

As of September 28, 2002 and September 29, 2001, the Company had 2,000,000 shares of Series A convertible preferred stock ("Series A"), issued and outstanding, all of which shares are held by BEI Technologies.

Voting

Holders of the Company's Series A preferred stock vote on an as-if-converted basis together with the voting common stock on all matters except as otherwise provided by law or in the Company's Certificate of Incorporation.

Liquidation Rights

In the event of any liquidation or winding up of the Company, including a merger, consolidation or reorganization in which the Company is not the surviving entity or a sale of substantially all of the Company's assets, the holders of Series A are entitled to liquidation preferences of $0.50 per share plus any declared and unpaid dividends. Upon satisfaction of the preferred liquidation preference, any remaining assets will be distributed to the holders of common stock on a pro rata basis.

Dividends

The holders of the Series A preferred are entitled to receive dividends when and if declared by the Board of Directors. The dividends are payable in preference and priority to any payment of any dividend on the common stock of the Company. Such dividends are not cumulative, and no right accrues to the holders of Series A. No dividends have been declared through September 28, 2002.

Conversion

The Series A preferred stock is convertible at any time at the option of the holder into shares of the Company's voting common stock on a one for one basis. Each share of Series A shall automatically be converted into shares

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OpticNet, Inc.
(a development stage company)
Notes to Financial Statements --(Continued)

of voting common stock at any time upon the affirmative vote of the holders of at least seventy-five percent of the Series A preferred shares then outstanding.

Series B Nonconvertible Preferred Stock

Effective September 28, 2002, the Company and BEI Technologies had determined the Company would authorize and issue to BEI Technologies a series of nonvoting preferred stock. In November 2002, the Company issued a total of 18,146,420 shares of nonvoting Series B Preferred Stock ("Series B") to BEI Technologies in consideration of $1.8 million advanced to the Company during the third and fourth quarters of fiscal 2002. See Note 13 for a further description of the Series B preferred stock.

Common Stock

As of September 28, 2002 and September 29, 2001, the Company had 3,093,202 and 3,616,000 shares of voting common stock issued and outstanding and 2,998,902 and 2,695,428 shares of nonvoting common stock issued and outstanding, respectively. Shares of the Company's nonvoting common stock are convertible into shares of the Company's voting common stock on a one-for-one basis only by action of the Company's Board of Directors.

Voting and nonvoting

The preferences, privileges, restrictions and other matters relating to the Company's voting common stock and nonvoting common stock are in all respects identical, except as otherwise required by law, as expressly provided in the Company's certificate of incorporation and, specifically, with respect to voting rights. Shares of the Company's voting common stock entitle the holder to vote on all matters that holders of common stock are generally entitled to vote by applicable law and as provided in the Company's certificate of incorporation and bylaws. Except as provided by the Delaware General Corporation Law, the holders of the Company's nonvoting common stock are not entitled to vote their shares on any matter on which the holders of the Company's voting common stock are generally entitled to vote their shares.

The holders of the Company's voting common stock are entitled to one vote for each share on all matters voted on by stockholders, including elections of directors, and, except as otherwise required by law or provided in any resolution adopted by the board with respect to any series of the Company's preferred stock, the holders of such shares exclusively possess all voting power (provided that the holders of the Company's preferred stock vote together with the Company's voting common stock on an as if converted basis). Subject to the preferential rights of the Company's preferred stock as described above and in the Company's certificate of incorporation, the holders of the Company's common stock are entitled to such dividends as may be declared from time to time by the board from available funds, and upon liquidation will be entitled to receive pro rata all assets of the company available for distribution to such holders.

Transfer Restrictions

There is not currently a public market for any class of the Company's securities, nor does the Company intend to create a public market any time in the near future. Until and unless the Company decides to list shares of its common stock for trading with a nationally recognized securities exchange or automated quotation system, the Company's common stock will be subject to significant restrictions on transfer as set forth in the Company's bylaws. In particular, apart from limitations on transfer created by applicable securities laws, the bylaws expressly forbid holders of the Company's common stock from assigning, hypothecating, donating, encumbering or otherwise disposing of any beneficial interest in their shares until the Company's common stock has been listed for trading with a nationally recognized securities exchange or automated quotation system. Accordingly, the Company's transfer agent has been instructed to stop any attempted transfer of beneficial ownership by a holder of the Company's common stock prior to the listing of the Company's common stock.

Shares subject to Right of Reacquisition

As of September 28, 2002 and September 29, 2001, a total of 1,240,496 and 942,096, respectively, shares of the Company's nonvoting common stock held by 17 individuals and 10 individuals, respectively, are subject to a

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repurchase right by the Company if the individual's employment with the Company, or employment with a related party, should terminate prior to full lapsing of such repurchase right. At September 28, 2002, shares of the Company's nonvoting common stock not yet vested to the holder and subject to a right of reacquisition by the Company provided for continued monthly pro-rata lapsing of the Company's reacquisition right so long as the individual remains in the Company's employ or that of an affiliate until the right of reacquisition lapses in full in September 2007.

Effective upon termination of all of the Company's employees in July 2002, and change in status to consultants, all remaining shares subject to reacquisition are accounted for under EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Pursuant to the applicable guidance, compensation cost is determined as the shares vest on the basis of fair value. During August and September 2002 the Company granted 930,000 restricted shares to non-employees for ongoing services provided to the Company. The Company recorded compensation expense of $5,574 related to non-employee restricted stock awards during the year ended September 28, 2002.

Stock Split

On October 20, 2000, the Company's Board of Directors approved a four-for-one stock split in respect of the Company's common and preferred stock. All amounts reported in the Company's financial statements have been adjusted to reflect the split as of the beginning of the period reported on.

Equity Incentive Plan

The Company's 2000 Equity Incentive Plan ("Incentive Plan") was adopted by the Board of Directors in September 2000. The Incentive Plan provides for the granting of incentive stock options to employees and nonstatutory stock options, restricted stock purchase awards, and stock bonuses to consultants, employees and directors (collectively, "Stock Awards"). The Company reserved 1,000,000 shares of common stock for Stock Awards under the Incentive Plan and shares totaling 830,481 and 657,000 remain available for grant thereunder at September 28, 2002 and September 29, 2001, respectively. Incentive stock options granted under the Incentive Plan are intended to qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, and may be granted solely to employees.

Stock options are granted pursuant to stock option agreements between the Company and the recipient of the award. The exercise price for an incentive stock option cannot be less than 100% of the fair market value of the common stock on the date of grant. The exercise price for a nonstatutory stock option cannot be less than 85% of the fair market value of the common stock on the date of grant. Options granted under the Incentive Plan vest at the rate specified in a grantee's option grant notice and option agreement.

Shares subject to stock options granted under the Incentive Plan that have expired or otherwise terminated without having been exercised in full once again become available for the grant of awards under the Incentive Plan. Likewise, shares of restricted stock awarded under this plan that have not become fully vested will again become available for the grant of awards. Shares issued under the Incentive Plan may be previously unissued shares or reacquired shares bought on the market or otherwise.

The term of incentive stock options granted under the Incentive Plan may not exceed 10 years. Unless the terms of an optionee's stock option agreement provide for earlier termination, in the event an optionee's service relationship with the Company, or any affiliate of the Company's, ceases due to disability, the optionee may exercise any vested options up to 12 months after the date such service relationship ends. In the case of the optionee's death, absent a provision stating otherwise in the stock option agreement, a beneficiary of the optionee may exercise any vested options up to 18 months after the date the service relationship ends. An optionee may not transfer a stock option other than by will or intestate law of descent and distribution upon death. However, an optionee may designate a beneficiary who may exercise the option following the optionee's death. If an optionee's relationship with the Company, or any affiliate of the Company's, ceases for any reason other than disability or

death, absent a provision for earlier termination in the stock option agreement, the optionee may exercise any vested options up to three months from cessation of service. However, in no circumstances may an option be exercised after the expiration of its term. Acceptable consideration for the purchase of common stock issued under the Incentive Plan is determined by the board of directors

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and may include cash, common stock previously owned by the optionee, a deferred payment arrangement and other legal consideration approved by the board of directors.

The Company has adopted the disclosure only alternative for its equity incentive plan as described in FAS No. 123, "Accounting for Stock Based Compensation" (FAS 123). The Company accounts for employee stock awards using the intrinsic value method in accordance with Accounting Principals Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25).

Effective upon the termination of all of the Company's employees in July 2002, and change in status to consultants, all outstanding options are accounted for under EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services". Pursuant to the applicable guidance, compensation cost is determined as the options vest on the basis of fair value. In August 2002, the Company granted 16,000 shares to an employee of an affiliate for ongoing services provided to the Company. The value of non-employee options vesting during the year ended September 28, 2002 was deemed to be immaterial.

A summary of the stock option activity under the Incentive Plan is as follows:

	Number of common shares	Weighted average exercise price per share
Options outstanding at February 23, 2000 (inception)	--	$--
Granted	--	--
Exercised	--	--
Terminated	--	--
Options outstanding at September 30, 2000	--	--
Granted	343,000	0.08
Exercised	--	--
Terminated	--	--
Options outstanding at September 29, 2001	343,000	0.08
Granted	182,000	0.09
Exercised	(23,686)	0.08
Terminated	(355,481)	0.08
Options outstanding at September 28, 2002	145,833	$0.09

As of September 28, 2002, options for 8,333 shares were vested and exercisable at a weighted average exercise price of $0.08. Additionally, options for 145,833 shares were outstanding with a weighted average remaining contractual life of 9.1 years and a weighted average exercise price of $0.09 per share at September 28, 2002.

As of September 29, 2001, no options were vested and exercisable and options for 343,000 shares were outstanding with a weighted average remaining contractual life of 9.54 years and a weighted average exercise price of $0.08 per share.

Compensation expense of approximately $14,000, $8,000, $5,000, and $26,000 for the amortization of stock subject to a repurchase right by the Company was recorded during the years ended September 28, 2002 and September 29, 2001, and the periods from February 23, 2000 (inception) to September 30, 2000, and February 23, 2000 (inception) to September 28, 2002, respectively.

The Company computed the pro forma disclosures required under FAS No. 123 for options granted during the years ended September 28, 2002 and September 29, 2001 using the Black-Scholes option pricing model and the following assumptions: a risk-free interest rate of 4.13% and 6.0%, respectively; and a weighted average expected life of 10 years; a volatility rate of 100%; and no dividend yield for both fiscal 2002 and fiscal 2001. There were no options granted during the period from February 23, 2000 (inception) to September 30, 2000. The impact on the calculation of pro forma results of operations and earnings per share required by FAS 123 was determined to be immaterial for fiscal years 2002 and 2001, and the period from inception to September 28, 2002.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully

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transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. The effects of applying FAS 123 in the pro forma disclosures may not be indicative of future amounts as additional awards in future years are anticipated and because the Black-Scholes option pricing model involves subjective assumptions which may be materially different than actual amounts.

9. Income Taxes

The Company accounts for income taxes under FAS No. 109, "Accounting for Income Taxes." Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities and are measured using the enacted tax rates and laws known at this time and that will be in effect when the differences are expected to reverse.

The reconciliation of income tax attributable to continuing operations computed at the U.S. federal statutory tax rates to income tax expense is:

	September 28, 2002	September 29, 2001
Tax at U.S. statutory rate	$(1,408,747)	$ (535,417)
State income taxes, net of federal benefit ...	(248,230)	(94,485)
Change in valuation allowance	1,591,972	598,113
Unrealizable net operating losses	--	31,789
Other	65,005	--
Total income taxes	$ --	$ --

Significant components of the Company's net deferred tax assets and liabilities are as follows:

	September 28, 2002	September 29, 2001
Deferred tax assets:		
Accruals and reserves	$ 11,569	$ --
Net operating loss carryforwards	1,998,671	556,113
Fixed asset and intangibles	67,724	42,000
Credits	34,338	--
Other	98,787	--
	$ 2,211,089	$ 598,113
Valuation allowance	(2,190,085)	(598,113)
	$ 21,004	$ --
Deferred tax liabilities:		
Fixed asset and intangibles	$ (21,004)	$ --
Net deferred tax asset (liability)	$ --	$ --

FAS 109 requires the establishment of a valuation allowance against a deferred tax asset if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. The deferred tax assets have been fully reserved due to the Company's (i) net operating losses since inception and (ii) present inability to recognize the potential benefits of its net operating loss carryforwards. Accordingly, the valuation allowance increased by $1,591,972 and $598,113 during the years ended September 28, 2002 and September 29, 2001, respectively.

As of September 28, 2002, the Company had net operating loss carryforwards for federal income tax purposes of approximately $5,266,500 which expire beginning in the year 2021. The Company also has net operating loss carryforwards for state income tax purposes of approximately $2,895,100 which expire beginning in the year 2013. Total tax credits are approximately $34,338, which begin to expire in the year 2021.

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Utilization of the Company's net operating loss carryforwards and credits may be subject to a substantial annual limitation due to the ownership change limitations included in the Internal Revenue Code of 1986, as amended, and similar state provisions. This annual limitation may result in the expiration of net operating losses and credits before utilization.

10. Employee Benefit Plan

The Company currently participates in the defined contribution retirement plan of BEI Technologies, which is a multi-employer 401(k) plan. The multi-employer plan permits matching contributions by the Company on behalf of its employees who participate in the plan. Matching non-discretionary contributions are based on a percentage of employee contributions. Contributions to the plan by the Company for the benefit of its employees were approximately $35,000 and $27,000 during the years ended September 28, 2002 and September 29, 2001, respectively. From February 23, 2000 (inception) to September 30, 2000, the Company had no employees, thus the Company made no contributions to the plan during that time period.

11. Reduction in Force

In April 2002, the Company underwent a reduction in force resulting in 8 individuals departing employment with the Company, including engineering, manufacturing and marketing personnel. Severance pay for affected persons was per Company policy, including cash payment and the acceleration of the vesting of options for certain affected individuals. Total cash costs related to the reduction in force of approximately $86,000 was recorded in the fiscal quarter ending June 29, 2002 within research and development expenses.

To further reduce costs for the Company in the near term, during July 2002, all of the Company's remaining 15 employees were released from their employment with the Company and accepted employment with a subsidiary of BEI Technologies, as agreed to by both companies, but still perform services for OpticNet. The Company's newly appointed President and Chief Technical Officer have also become employees of this same subsidiary of BEI Technologies, but continue to serve as executive officers of the Company. The services of certain key individuals, including the Company's newly appointed President and Chief Technical Officer, are expected to continue to be available to the Company on an as needed basis, with reimbursement by the Company to their present employer for the time value of their services.

12. Loss Per Share

The following table sets forth the computation of basic and diluted loss per common share from operations:

<TABLE>
<CAPTION>

		Year Ended September 28, 2002	Year Ended September 29, 2001	Period from February 23, 2000 (inception) to September 30, 2000	Period from February 23, 2000 (inception) to September 28, 2002
<S>	<C>	<C>	<C>	<C>	<C>
	Numerator				
Loss from operations		$(4,131,429)	$(1,574,755)	$(105,746)	$(5,811,930)
	Denominator				
Weighted average shares		5,586,971	4,989,132	683,765	4,266,774

</TABLE>

If the Company had reported net income, the calculation of diluted loss per share would have included the shares used in the computation of historical net loss per share as well as an additional 2,939,840 common equivalent shares related to outstanding stock options and nonvested restricted stock (determined using the treasury stock method) for the year ended September 28, 2002.

13. Subsequent Event

Effective September 28, 2002, the Company and BEI Technologies had determined the Company would authorize and issue to BEI Technologies a series of nonvoting preferred stock. In November 2002, the Company issued a total of 18,146,420 shares of nonvoting Series B Preferred Stock ("Series B") to BEI Technologies in

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consideration of $1.8 million advanced to the Company during the third and fourth quarters of fiscal 2002.

Voting

Holders of the Company's Series B preferred stock are not entitled to vote on any matter that the holders of OpticNet's preferred stock or common stock generally are entitled to vote.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the Company, including a merger, consolidation or reorganization resulting in a change in control of the Company or a sale, lease or other disposal of substantially all of the Company's assets, the holders of Series B are entitled to receive an amount equal to the original issuance price plus all accrued and unpaid Series B dividends as of such date, which shall be paid prior to and in preference to any payment made or any assets distributed to the holders of any class or series of the common stock or other series of preferred stock of the Company.

Dividends

The holders of the Series B preferred are entitled to receive dividends on each share at the rate of 6% per year, calculated on the original issuance price, payable annually and cumulative to the extent not paid, with additional dividends payable thereon. The dividends are payable in preference and priority to any payment of any dividend on the common stock or any other series of preferred stock of the Company.

Conversion

The Series B preferred stock is not convertible into any other form of equity of the Company.

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors
OpticNet, Inc. (a development stage company)

We have audited the accompanying balance sheets of OpticNet, Inc. (a development stage company) as of September 28, 2002 and September 29, 2001, and the related statements of operations, stockholders' deficit and cash flows for the years ended September 28, 2002 and September 29, 2001 and the periods from February 23, 2000 (inception) to September 30, 2000 and from February 23, 2000 (inception) to September 28, 2002. 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 in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OpticNet, Inc. (a development stage company) at September 28, 2002 and September 29, 2001, and the results of its operations and its cash flows for the years ended September 28, 2002 and September 29, 2001 and the periods from February 23, 2000 (inception) to September 30, 2000 and from February 23, 2000 (inception) to September 28, 2002 in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that OpticNet, Inc. will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and negative cash flows from operations since its inception, which resulted in an accumulated deficit of approximately $5.8 million as of September 28, 2002. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible

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future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

San Francisco, CA
November 20, 2002

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP Independent Auditors
99.5	CEO Certification Pursuant to 18 U.S.C as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.6	CFO Certification Pursuant to 18 U.S.C. as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-38643), as amended, pertaining to the 1997 Equity Incentive Plan of BEI Technologies, Inc., of our report dated November 20, 2002, with respect to the financial statements and schedule of OpticNet, Inc., included in this Form 10-K/A for the year ended September 28, 2002.

Ernst & Young LLP

San Francisco, California
Date February 4, 2003

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EXHIBIT 99.5

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C.ss. 1350, as adopted), Charles Crocker, the Chief Executive Officer of BEI Technologies, Inc. (the "Company") hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K/A for the period ended September 28, 2002, to which this Certification is attached as Exhibit 99.5 (the "Annual Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Annual Report and results of operations of the Company for the period covered by the Annual Report.

Dated: February 7, 2003

/s/ Charles Crocker

Charles Crocker
Chief Executive Officer

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EXHIBIT 99.6

CERTIFICATION

Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002 (18 U.S.C.ss. 1350, as adopted), John LaBoskey, the Chief Financial Officer of BEI Technologies, Inc. (the "Company") hereby certifies that, to the best of his knowledge:

1. The Company's Annual Report on Form 10-K/A for the period ended September 28, 2002, to which this Certification is attached as Exhibit 99.6 (the "Annual Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Annual Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Annual Report and results of operations of the Company for the period covered by the Annual Report.

Dated: February 7, 2003

/s/ John LaBoskey

John LaBoskey
Chief Financial Officer

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