FORM PRE 14A

Preliminary proxy statement not related to a contested matter or merger/acquisition

Filing Date: **1999-03-26** | Period of Report: **1999-03-26**
SEC Accession No. 0000950123-99-002584

FILER

ROBOTIC VISION SYSTEMS INC

CIK:**225868**| IRS No.: **112400145** | State of Incorp.:**DE** | Fiscal Year End: **0930**
Type: **PRE 14A** | Act: **34** | File No.: **000-08623** | Film No.: **99574235**
SIC: **3823** Industrial instruments for measurement, display, and control

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SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

/X/ Filed by the Registrant
/ / Filed by a Party other than the Registrant

Check the Appropriate Box:
/X/ Preliminary Proxy Statement
/ / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

ROBOTIC VISION SYSTEMS, INC.
(Name of Registrant as Specified in its Charter)

(Name of Person(s) filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (check the appropriate box):
/X/ No fee required.
/ / Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

/ / Fee paid previously with preliminary materials

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Copies of all communications to:

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New York, New York 10022
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[RVSI logo]

ROBOTIC VISION SYSTEMS, INC.
5 SHAWMUT ROAD
CANTON, MASSACHUSETTS 02021

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY , 1999

To the Stockholders of
ROBOTIC VISION SYSTEMS, INC.:

NOTICE IS GIVEN that the annual meeting of stockholders of ROBOTIC VISION SYSTEMS, INC., a Delaware corporation, will be held at , , , , on , May , 1999 at the hour of 10:00 a.m., for the following purposes:

1) To elect eight directors of the Company for the ensuing year.

2) To consider and vote upon a proposal to authorize the issuance of shares of common stock of the Company pursuant to the terms of an $11,000,000 private placement of the Company's equity securities with certain institutional investors and their agent completed on February 23, 1999.

3) To consider and vote upon a proposal to amend the Company's certificate of incorporation to increase the authorized number of shares of common stock from 50,000,000 to 100,000,000.

4) To ratify the selection of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending September 30, 1999.

5) To transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on April , 1999 are entitled to notice of and to vote at the meeting or any adjournment thereof.

Frank D. Edwards
Secretary

Canton, Massachusetts
April , 1999

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND DATE THE ENCLOSED PROXY, WHICH IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY AND PROMPTLY RETURN IT IN THE PRE-ADDRESSED ENVELOPE PROVIDED FOR THAT PURPOSE. ANY STOCKHOLDER MAY REVOKE HIS PROXY AT ANYTIME BEFORE THE MEETING BY GIVING WRITTEN NOTICE TO SUCH EFFECT, BY SUBMITTING A SUBSEQUENTLY DATED PROXY OR BY ATTENDING THE MEETING AND VOTING IN PERSON.

ROBOTIC VISION SYSTEMS, INC.
5 SHAWMUT ROAD
CANTON, MASSACHUSETTS 02021

PROXY STATEMENT

INTRODUCTION

This Proxy Statement is being mailed on or about April , 1999 to all stockholders of record of the Company at the close of business on April , 1999 in connection with the solicitation by the board of directors of proxies for the annual meeting of stockholders to be held at , , , , on May , 1999.

SOLICITATION OF PROXIES

Proxies will be solicited by mail, and all expenses of preparing and soliciting such proxies will be paid by the Company. has been retained to solicit proxies on behalf of the board at an anticipated cost of $ plus expenses. The Company has also arranged for reimbursement, at the rate suggested by The Nasdaq Stock Market, Inc., of brokerage houses, nominees, custodians and fiduciaries for the forwarding of proxy materials to the beneficial owners of shares held of record. Proxies may also be solicited by directors, officers and employees of the Company, but such persons will not be specifically compensated for such services.

All proxies properly executed and received by the persons designated as proxy will be voted on all matters presented at the meeting in accordance with the specific instructions of the person executing such proxy or, in the absence of specified instructions, will be voted for the named nominees to the board and in favor of the proposals to:

- authorize the issuance of shares of common stock pursuant to the terms of the February 1999 private placement,

- amend the Company's certificate of incorporation to provide for an increase in the number of authorized shares of common stock from 50,000,000 to 100,000,000, and

- ratify the selection of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending September 30, 1999.

The board does not know of any other matter that may be brought before the meeting but, in the event that any other matter should come before the meeting, or any nominee should not be available for election, the persons named as proxy will have authority to vote all proxies not marked to the contrary in their discretion as they deem advisable.

MANNER OF VOTING

Stockholders may vote their proxies by mail. Stockholders who hold their shares through a bank or broker can also vote via the Internet if this option is offered by the bank or broker. Any stockholder may revoke his proxy, whether he votes by mail or the Internet, at any time before the meeting by written notice to such effect received by the Company at the address set forth above, attn: corporate secretary, by delivery of a subsequently dated proxy or by attending the meeting and voting in person.

VOTE REQUIRED

The total number of shares of the Company's common stock outstanding as of the record date was [24,889,611]. The common stock is the only class of securities of the Company entitled to vote, each share being entitled to one non-cumulative vote. Only stockholders of record as of the close of business on the record date will be entitled to vote. A majority of the shares of common stock outstanding and entitled to vote, or [12,444,806] shares, must be present at the meeting in person or by proxy in order to constitute a quorum for the transaction of business. Abstentions and broker nonvotes will be counted for purposes of determining the presence or absence of a quorum for the transaction of business. Assuming the presence of a quorum, an affirmative vote of a majority of the shares of common stock present and voting, in person or by proxy, at the meeting is required to pass upon each of the matters presented except that the proposal to amend the Company's certificate of incorporation requires the affirmative vote of holders of a majority of all outstanding common stock entitled to vote at the meeting.

ABSTENTIONS AND NONVOTES

Abstentions will be counted in tabulations of the votes cast on each of the proposals presented at the meeting, whereas broker nonvotes will not be counted for purposes of determining whether a proposal has been approved. "Broker nonvotes" are proxies received from brokers who, in the absence of specific voting instructions from beneficial owners of shares held in brokerage name, have declined to vote such shares in those instances where discretionary voting by brokers is permitted.

A list of stockholders entitled to vote at the meeting will be available at the Company's offices, 5 Shawmut Road, Canton, Massachusetts, for a period of ten days prior to the meeting and at the meeting itself for examination by any stockholder.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding the ownership of the Company's common stock as of the record date by (i) each director of the Company, (ii) each person known by the Company to own beneficially 5% or more of the Company's common stock, (iii) each officer named in the summary compensation table elsewhere in this proxy statement and (iv) all directors and executive officers as a group:

<TABLE>
<CAPTION>

NAME AND ADDRESS BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED(1)	PERCENT OF CLASS
<S>	<C>	<C>
Pat V. Costa	238,927(2)	1.0%
Frank A. DiPietro	54,770(3)	*
Jay M. Haft	487,546(4)	2.0%
Tomas Kohn	49,155(5)	*
Donald J. Kramer	22,654(6)	*
Mark J. Lerner	88,451(7)	*
Howard Stern	72,978(8)	*
Robert H. Walker	77,825(9)	*

</TABLE>

<TABLE>
<CAPTION>

NAME AND ADDRESS BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK BENEFICIALLY OWNED(1)	PERCENT OF CLASS
<S>	<C>	<C>
John J. Arcari	20,000(10)	*
Steven J. Bilodeau	42,974(10)	*
Curtis W. Howes	7,168(11)	*
Earl H. Rideout	33,302(12)	*
Citadel Limited Partnership(13) 225 West Washington St. 9th Floor Chicago, IL 60606	2,118,217(14)	7.9%
All current executive officers and directors as a group (14 persons)	1,203,417(15)(16)	4.7%

</TABLE>

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* Denotes less than 1%.

(1) Except as otherwise indicated, includes shares underlying currently exercisable options and warrants as well as those options and warrants which will become exercisable within 60 days of the record date. Except as otherwise indicated, the named persons herein have sole voting and dispositive power with respect to beneficially owned shares.

(2) Includes 207,326 shares underlying options and 1,601 vested shares held under the Company's retirement investment plan.

(3) Includes 1,000 shares underlying options; also includes 31,770 shares owned of record by Mr. DiPietro's spouse.

(4) Includes 23,000 shares underlying options; also includes, 398,100 shares owned of record by Mr. Haft's spouse and 7,666 shares held indirectly in a retirement trust.

(5) Includes 1,000 shares underlying options; also includes 1,684 shares owned of record by Mr. Kohn's spouse.

(6) Includes 9,802 shares underlying options; also includes 10,000 shares held indirectly in an irrevocable trust with Mr. Kramer's spouse as trustee. Mr. Kramer disclaims any interest in these shares.

(7) Includes 82,451 shares underlying warrants held by Morgen, Evan & Company, Inc., of which Mr. Lerner is the principal owner; also includes 6,000 shares underlying options.

(8) Includes 20,000 shares underlying options and 6,148 vested shares held under the Company's retirement investment plan.

(9) Includes 26,113 shares underlying options and 17,632 shares indirectly in a retirement account.

(10) Represents shares underlying options.

(11) Includes 6,668 shares underlying options.

(12) Includes 32,994 shares underlying options and 308 vested shares held under the Company's retirement investment plan.

(13) Represents shares held by a "group," within the meaning of Section 13(d)(3) of the Securities Exchange Act, comprised of Citadel Limited Partnership, GLB Partners, L.P., Citadel Investment Group, L.L.C., Kenneth Griffin, Wellington Partners Limited Partnership, Wingate Capital Ltd., Kensington Global Strategies Fund Ltd. and Fisher Capital, Ltd. as reflected in Schedule 13G, filed with the SEC on March 3, 1999.

(14) Represents shares underlying certain prepaid common stock purchase warrants, the terms of which are discussed elsewhere in this proxy statement. These warrants are not exercisable prior to August 19, 1999.

(15) Includes an aggregate of 481,995 shares underlying options and warrants.

(16) Includes an aggregate of 8,057 vested shares held in the Company's investment retirement plan.

COMPLIANCE WITH SECTION 16(a) OF SECURITIES EXCHANGE ACT

Section 16(a) of the Securities Exchange Act requires the Company's officers and directors, and persons who own more than 10% of the Company's common stock, to file reports of ownership and changes in ownership with the SEC. Officers, directors and greater than 10% stockholders are required by SEC rule to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no such forms were required for those persons, the Company believes that during the fiscal year ended September 30, 1998, all filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with except that Messrs. Howes, O'Brien and Rideout were each not timely in the filing of one monthly report of one transaction.

ELECTION OF DIRECTORS

Eight directors are to be elected at the meeting to serve for a term of one year or until their respective successors are elected and qualified.

INFORMATION CONCERNING NOMINEES

The following table sets forth the positions and offices presently held with the Company by each nominee, his age and his tenure as a director.

<TABLE>
<CAPTION>

NAME	AGE	POSITIONS AND OFFICES PRESENTLY HELD WITH THE COMPANY	SINCE
Pat V. Costa..................	55	Chairman, president and chief executive officer	1984
Frank A. DiPietro.............	72	Director	1992
Jay M. Haft...................	63	Director	1977
Tomas Kohn....................	58	Director	1997
Donald J. Kramer..............	66	Director	1995
Mark J. Lerner................	46	Director	1994
Howard Stern..................	61	Senior vice president and director	1981
Robert H. Walker..............	63	Director	1990

</TABLE>

PAT V. COSTA has served as president, chief executive officer and board chairman since 1984. Previously and from 1977, Mr. Costa was employed by GCA

Corporation, most recently in the capacity of executive vice president. GCA was engaged in the manufacturing of various electronic instrumentation equipment and systems.

FRANK A. DIPIETRO began his career with GM in 1944. During his forty-six year career with GM, he was actively involved in automobile assembly and manufacturing engineering systems. He retired in 1990 and continues as a consultant in laser systems in several industries, most recently for the University of Michigan in evaluating laser applications in the global auto industry. At the time of his retirement, Mr. DiPietro held the position of director of manufacturing engineering, chevrolet-pontiac-canada car group, for GM. In 1996, he was elected to the position of director-at-large for the society of manufacturing engineers.

JAY M. HAFT has been a practicing attorney for over 30 years and a strategic and financial consultant for growth stage companies. Mr. Haft also serves as chairman of Noise Cancellation Technologies, Inc. and Extech, Inc. both public companies whose respective securities are traded on the Nasdaq Small Cap Market. He is a managing general partner of Gen Am "1" Venture Fund, an international venture capital fund. Mr. Haft is also a director of numerous other public and private corporations. From 1989 until 1994, he was a partner of Parker Duryee Rosoff & Haft in New York, New York. He is currently of counsel to such firm.

TOMAS KOHN has been a professor of management at Boston University's School of Management in the undergraduate, MBA, and executive MBA programs since 1988. Dr. Kohn is the chairman of Conduit del Ecuador, a steel tubing manufacturer, and a member of the board of directors of Ideal-Alambrec, a steel wire manufacturer, both in Quito, Ecuador. He has held these positions since 1974 and 1972, respectively. From 1987 until the Company's acquisition of Computer Identics Corp. in August 1996, Dr. Kohn was a member of Computer Identics' board of directors, and its Chairman since 1992. From 1986 until 1995, Dr. Kohn was a member of the board of directors of N.V. Bekaert S.A., the world's largest independent steel wire manufacturer. N.V. Bekaert was a major shareholder of Computer Identics.

DONALD J. KRAMER was chairman of Acuity Imaging, Inc. from January 1994 until the Company's acquisition of Acuity in September 1995. Mr. Kramer served as a director of Itran Corp. from 1982 until its merger with Automatix, Inc. in January 1994, at which time the merger survivor assumed the Acuity name. Mr. Kramer is a private investor and was a special limited partner of TA Associates, a private equity capital firm located in Boston, Massachusetts, from January 1990 to March 1996. For the previous five years, Mr. Kramer was a general partner of TA Associates. In January 1997, Mr. Kramer was elected to the board of publicly-owned Micro Component Technology, Inc. Mr. Kramer is also a director of several privately held companies.

MARK J. LERNER has been president of Morgen, Evan an investment banking firm which focuses on Japanese-U.S. transactions, since 1992. Previously and from 1990, he was a managing director at Chase Manhattan Bank where he headed the Japan corporate finance group. From 1982 to 1990 Mr. Lerner worked in the investment banking division of Merrill Lynch as head of its Japan group, coordinating its New York-based Japanese activities with professionals in Tokyo and London.

HOWARD STERN has been senior vice president and technical director of the Company since December 1984. Previously and from 1981, he was vice president of the Company.

ROBERT H. WALKER was, before his retirement in March 1998, executive vice president and secretary-treasurer of the Company, a position he held since December 1986. From 1984 to 1986 he was senior vice president of the Company. From 1983 to 1985 he also served as treasurer. Mr. Walker is a director of Tel Instrument Electronics Corporation, a publicly-owned company.

IDENTIFICATION OF EXECUTIVE OFFICERS

(Excludes executive officers who are also directors)

<TABLE>
<CAPTION>

NAME	AGE	POSITION	PRINCIPAL OCCUPATION
<S>	<C>	<C>	<C>

Frank D. Edwards...............	44	Vice president, Secretary and Treasurer	Joined RVSI in March 1999 as corporate vice president of finance and chief financial officer. Before joining RVSI, and since 1986, he was employed by Electronic Designs, Inc. Most recently, until that company's merger with Bowmar Instrument Corporation in October 1998, he was senior vice president and chief financial officer and a member of its board.
Curtis W. Howes................	48	Vice president	Joined RVSI in May 1997 as corporate vice president of automatic identification. Before joining RVSI and since November 1991, he was employed by Intermec Corporation, most recently as general manager of Intermec's imaging systems division, which designed, manufactured and sold vision-based products for symbology reading.
John S. O'Brien................	45	Vice president	Joined RVSI in February 1997 as corporate vice president of human resources. Previously and from 1990, he was vice president, human resources and chief financial officer of Charles River Data Systems, an imbedded systems developer and manufacturer in Farmingham, MA.

</TABLE>

<TABLE>
<CAPTION>

NAME	AGE	POSITION	PRINCIPAL OCCUPATION
<S>	<C>	<C>	<C>
Earl H. Rideout................	52	Senior vice president	Has been corporate senior vice president of RVSI's semi-conductor equipment group since January 1997. Previously and from 1989 he was vice president/general manager of RVSI's electronics division.
Neal H. Sanders................	49	Vice president	Joined RVSI in 1999 as corporate vice president of corporate communications and investor relations. Previously and from 1980 through 1998, he held comparable positions at Analog Devices, Inc., Bord Beranek and Newman, Inc., Information Analysts, Inc., and Microdyne Corporation.

</TABLE>

Executive officers are elected annually by the board to hold office until the first meeting of the board following the next annual meeting of stockholders and until their successors are chosen and qualified.

INFORMATION CONCERNING THE BOARD

The board held thirteen meetings during the year ended September 30, 1998, nine of which were conducted by telephone. All directors were present at the non-telephonic meetings, except for Mr. Haft who was absent from one meeting. No director missed more than three telephonic meetings.

The stock option committee of the board reviews and implements appropriate action with respect to all matters pertaining to stock options granted under the Company's stock option plans. The stock option committee is currently composed of Messrs. DiPietro and Haft. The stock option committee held twenty-one meetings, including actions taken by unanimous written consent in lieu of meetings, during fiscal 1998. All then incumbent members were present at each of these meetings.

The audit committee of the board is charged with the review of the activities of the Company's independent auditors (including, but not limited to, fees, services and scope of audit). The audit committee is presently composed of Messrs. Costa, DiPietro and Haft, Mr. Costa being an ex officio, non-voting member. The audit committee met twice during the 1998 fiscal year. All then incumbent members were present at each of these meetings.

The Company does not have a nominating committee, charged with the search for and recommendation to the board of potential nominees for board positions nor does the Company have a compensation committee charged with reviewing and recommending to the board compensation programs for the Company's officers. These functions are performed by the board as a whole.

APPROVAL OF ISSUANCE OF SHARES OF COMMON STOCK PURSUANT TO TERMS OF PRIVATE PLACEMENT TO CERTAIN INSTITUTIONAL INVESTORS AND THEIR AGENT

PRIVATE PLACEMENT

On February 23, 1999, the Company completed a private placement of its equity securities consisting of 5-year prepaid common stock warrants with a stated value of $11,000,000 and 5-year incentive common stock purchase warrants to purchase 592,307 shares of common stock of the Company upon payment of an exercise price of $4.02 per share.

At the closing, the Company received gross proceeds of $11,000,000 from the issuance to certain institutional investors of the prepaid warrants and the incentive warrants, and net proceeds of approximately $10,000,000, after the payment of costs and expenses related to the placement, including $979,000 paid to The Zanett Corporation as compensation for its services as placement agent. The Company also issued to the placement agent 5-year incentive warrants to purchase 629,915 shares of common stock at an exercise price of $4.02 per share. The placement was conducted as a private offering pursuant to regulation D under the Securities Act.

REASONS FOR PLACEMENT

The Company sold securities in the private placement in order to obtain funds to meet its needs for additional working capital. Since August 1998, the Company has considered a variety of proposals to obtain additional working capital, either in the form of equity financing or of indebtedness subordinated to the Company's existing bank credit agreement. The board has evaluated several different alternative financing proposals and believes that the private placement completed on February 23, 1999 affords to the Company the most favorable terms of the several proposals the Company had considered, in terms of:

- the financing being made available in one installment on a timely basis.

- the absence of restrictive covenants on the conduct of the Company's business.

- a lesser immediate dilutive effect on the relative position of the holders of common stock prior to the placement.

- The ability to limit future dilutive effect by having the right, under certain circumstances, to redeem the prepaid warrants in the event the market price of the common stock is less than $4.02 per share.

The board also believes that the terms of the placement do not unduly interfere with the Company's ability to obtain additional equity financing in the future.

WHY THE COMPANY IS REQUESTING SHAREHOLDER APPROVAL OF THIS PROPOSAL

The board wishes to have the option to issue shares of common stock upon exercise of the prepaid warrants and the incentive warrants without regard to the limits of Nasdaq rule 4310(c)(25) which provides that the Company must obtain shareholder approval before issuance, at a price per share below the greater of market or book value, of common stock, or securities convertible into common stock, having voting power equal to or greater than 20% or more of the outstanding common stock. Under the terms of the prepaid warrants, if this proposal is not approved and the Nasdaq rule prevents a holder from

exercising his prepaid warrant in full, the holder may elect to require the Company to redeem his prepaid warrant at the default amount, calculated as set forth below.

The board believes that absent shareholder approval of the proposal, this Nasdaq Rule could result in a forced cash payment by the Company at a time when the Company might not have, and could not obtain, the resources necessary to make such payment. The board desires to have the ability to retain cash for the use of the Company for other purposes.

If shareholders approve both this proposal and the proposal to amend the Company's certificate of incorporation to increase the authorized shares of common stock, discussed elsewhere in this proxy statement, the Company shall have the right, exercisable on no more than four occasions, to call for redemption a pro rata amount of the prepaid warrants if, during the 20-day trading period immediately preceding the date of the Company's notice of redemption, the average closing bid price, and on the date of giving notice of redemption the closing bid price, of the Company's common stock is less than $4.02 per share, subject to anti-dilution adjustment, at a cash price equal to 120% of the stated value of the prepaid warrants called for redemption, inclusive of accrued premium.

DESCRIPTION OF PREPAID WARRANTS

- The prepaid warrants, subject to certain limitations described below, may be exercised into that number of shares of common stock determined by dividing the stated value of the prepaid warrants, plus, in the Company's discretion, an amount equal to any accrued but unpaid premium, by the exercise price, which is the lesser of

  - a fixed exercise price of $4.02 or

  - a market price equal to 95% of the average of the three lowest closing bid prices, as reported on the National Market System, in the 20 consecutive trading day period ending on the trading day immediately preceding the exercise date, which 20 day period may be increased under certain circumstances as set forth in the prepaid warrants.

As a result, if the market price is less than the fixed exercise price, the exercise price will fluctuate depending on the closing bid price of the Company's common stock. As a consequence, the number of shares of common stock into which the prepaid warrants may be exercised may fluctuate on a daily basis based solely on the market price for the common stock.

- The prepaid warrants become exercisable to the extent of 25% of their stated value on August 19, 1999, increasing by an additional 25% of the stated value each 90-day period thereafter, so that on May 19, 2000, the prepaid warrants will be fully exercisable. The exercisability of the prepaid warrants may be accelerated under certain circumstances.

- The prepaid warrants accrue a premium at the rate of 7% per annum, which, at the Company's option, can be paid either in cash or added to their stated value.

- The prepaid warrants contain provisions pursuant to which their fixed exercise price will be adjusted upon the occurrence of certain events, including the failure by the Company to issue freely tradeable shares of common stock upon exercise of the prepaid warrants. In addition, subject to certain exceptions, if the Company issues common stock or any securities convertible into or exchangeable for shares of common stock at a conversion or exchange rate based on a discount to the market price of the common stock at the time of issuance of the common stock or other securities, the fixed exercise price after such issuance shall be adjusted downward proportionately in accordance with a standard anti-dilution formula.

- The prepaid warrants provide that upon exercise no holder may receive shares of common stock to the extent that the total number of shares of common stock beneficially owned by the holder and its affiliates would result in beneficial ownership of shares in excess of 10.0% (4.99% in the case of certain investors) of the then outstanding common stock of the Company.

- The number of shares of common stock that may be issued to the investors is limited to a total of 4,972,695 shares until such time as this proposal is approved by shareholders. If at any time this limitation is less than 135% of the number of shares then issuable upon exercise of the prepaid warrants, any holder not able to exercise his prepaid warrant in full because of this limitation, can require the Company to purchase that portion of the prepaid warrant held by such holder in excess of this limitation at a default amount.

- The default amount is the greater of 105% of the stated value of the prepaid warrant to be purchased inclusive of accrued but unpaid premium, or a sum derived from a mathematical formula set forth in the prepaid warrant.

If the Company fails to pay the default amount, then such holder, with the consent of the holders of at least 50% of the outstanding amount of the prepaid warrants, can require the Company to terminate its listing of the common stock on the Nasdaq National Market and cause the common stock to be traded on the over-the-counter electronic bulletin board, in order to enable the Company to issue shares of common stock in excess of this limitation.

- At the placement closing, the Company reserved 5,967,125 shares of common stock for future issuances upon exercises of the prepaid warrants. If shareholders approve this proposal, this reservation shall be increased to 200% of the number of shares of common stock then issuable upon exercise of the prepaid warrants. If the number of shares of common stock so reserved is less than 135% of the number of shares issuable upon exercise of the prepaid warrants for any 3 consecutive trading days, then the Company is required to take action to increase this reservation to 165%. In the event that the Company fails to effect such increase within 90 days, any holder can require the Company to purchase the prepaid warrants at the default amount. In addition, such holder can elect to require the Company to convert all or any portion of the default amount into common stock at the lowest exercise price in effect during the pendency of the default.

- If shareholders approve both this proposal and the proposal to amend the Company's certificate of incorporation to increase the authorized shares of common stock, discussed elsewhere in this proxy statement, the Company shall have the right, exercisable on no more than four occasions, to call for redemption a pro rata amount of the prepaid warrants if, during the 20-day trading period immediately preceding the date of the Company's notice of redemption, the average closing bid price, and on the date of giving notice of redemption the closing bid price, of the Company's common stock is less than $4.02 per share, subject to anti-dilution adjustment, at a cash price equal to 120% of the stated value of the prepaid warrants called for redemption, inclusive of accrued premium.

- In the event the exercise price of the prepaid warrants is less than $2.50 per share at any time that a holder has requested exercise, the Company may elect to redeem the prepaid warrants for a cash sum equal to the result obtained by multiplying the stated value of the prepaid warrant, plus accrued premium and any unpaid default payments,

divided by the exercise price, by the closing bid price of the common stock on the date of notice of redemption.

- On February 19, 2004, the prepaid warrants, to the extent not previously exercised, will be automatically exercised in their totality, subject to the share limitation unless such limitation is waived by the holders.

INCENTIVE WARRANTS

At the placement closing, the Company issued to the investors and to the placement agent incentive warrants to purchase 592,307 and 629,915 shares of common stock, respectively, at an exercise price of $4.02 per share. The inventive warrants may be exercised at any time during their 5-year term. The incentive warrants are transferable subject to compliance with applicable securities laws. The aggregate beneficial ownership by holders of shares of common stock issuable upon exercises of the incentive warrants is limited in the same manner as the prepaid warrants.

The incentive warrants provide for a downward adjustment of their exercise price in the event that, subject to certain exceptions, the Company issues common stock or securities convertible into or exercisable for common stock at a price below the average closing bid prices for shares of the common stock for the 5 trading days immediately preceding the relevant issuance date.

REGISTRATION RIGHTS

The Company has agreed to file a registration statement with the SEC covering the shares of common stock issuable upon the exercise of the prepaid warrants and the incentive warrants. The Company will be penalized in the event that

- the registration statement is not declared effective by the SEC by August 19, 1999.

- if, after a filed registration statement has been declared effective by the SEC, sales of covered common stock cannot be made for any reason outside of the control of the investors.

- the common stock is not listed or included for quotation on The Nasdaq National Market, the New York Stock Exchange or the American Stock Exchange.

The penalties to be paid by the Company to the investors in the event of each default will be $33,000 per day and must be paid in cash unless the investors elect to receive such payments in shares of common stock.

Copies of the prepaid warrants were filed as exhibits to the Company's current report on form 8-K dated and filed with the SEC on February 24, 1999 and the preceding summarization of these documents is qualified in its entirety by reference to such exhibits.

POSSIBLE DISADVANTAGES OF APPROVAL

- POTENTIAL FOR INCREASED DILUTION

If shareholders approve this proposal, the number of shares of common stock that ultimately may be issued upon the exercise of the prepaid warrants may be significantly greater than the maximum number of shares of common stock currently permitted to be issued in connection with their exercise. The following table illustrates the effect of various exercise prices on the number of shares that may be issued, assuming the prepaid warrants are exercised at the following exercise prices, without calculating the number of shares issuable in connection with accrued and unpaid premium amounts:

<TABLE>
<CAPTION>

ASSUMED EXERCISE PRICE(1)	NUMBER OF SHARES OF COMMON STOCK ISSUABLE UPON EXERCISE(2)	PERCENTAGE OF OUTSTANDING COMMON STOCK UPON EXERCISE(3)
<S>	<C>	<C>
$4.02	2,736,319	9.9%
$3.50	3,142,858	11.2%
$3.00	3,666,667	12.8%
$2.50(4)	4,400,000	15.0%
$2.00(4)	5,500,000	18.1%
$1.50(4)	7,333,334	22.8%

</TABLE>

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(1) Generally, the exercise price will be the lower of the fixed exercise price ($4.02 per share) or the fluctuating market price. Therefore, there is no minimum exercise price, and, unless the number of outstanding shares of common stock is reduced by a reverse stock split or other capital stock reducing event, the exercise price will not exceed $4.02 per share.

(2) Calculated by dividing the $11,000,000 aggregate stated value of the prepaid warrants by the assumed exercise price (column 1 of this table). No effect

has been given to the possible issuance of up to 1,222,222 shares of common stock upon exercise of the incentive warrants as their exercise price of $4.02 is equal to or greater than the assumed exercise prices.

(3) Assumes that the number of shares of common stock outstanding after the issuance of the number of shares set forth in column 2 of this table is the sum of the [24,889,611] shares outstanding as of the record date and the number of shares set forth in column 2 of this table.

(4) If the exercise price of the prepaid warrants for which a notice of exercise has been given is $2.50 or less, the Company may elect to redeem such prepaid warrants for cash. There can be no assurance that the Company will have the necessary cash resources to effect such redemption.

- POTENTIAL FOR INCREASED NUMBER OF SHARES AVAILABLE FOR SALE

Approval could result in a greater number of shares of common stock becoming eligible for sale in the public market. The Company is required to keep in effect registration statements which would permit the public offer and sale of all of the shares of

common stock issued or issuable upon the exercise of the prepaid warrants and the incentive warrants. Such sales, or anticipation of the possibility of such sales, represents an overhang on the market and could depress the market price of the common stock.

- POTENTIAL FOR A CHANGE OF CONTROL

Approval could, depending on the market prices of the common stock during the periods prior to the exercise of the prepaid warrants, result in the issuance of a large number of shares of common stock, thereby possibly resulting in a change of control of the Company if the exercising holders were to retain such shares rather than sell them.

- POTENTIAL FOR DISCOURAGING CERTAIN CHANGES OF CONTROL

The potential for the issuance of a large number of shares of common stock following approval might tend to have the effect of delaying, deferring or preventing a change in control of the Company or discouraging tender offers for the Company.

- POTENTIAL EFFECTS ON THE COMPANY'S ABILITY TO OBTAIN FUTURE EQUITY CAPITAL

Approval may impede the Company's ability to obtain additional equity capital in the future because of the first two factors cited above.

The board considered these disadvantages and concluded that they were outweighed by the advantages gained by the Company from the placement. The board considered the financing alternatives available to the Company and determined that the terms of the placement were the most favorable available to the Company within the requisite time period. The proceeds were needed to fund the Company's immediate needs for additional working capital.

CONSEQUENCES IF SHAREHOLDER APPROVAL IS NOT OBTAINED

If this proposal is not approved, both the terms of the prepaid warrants and Nasdaq rule 4310(e)(25) will prohibit the Company from issuing more than 4,972,695 shares of common stock upon the exercise of the prepaid warrants. Consequently, the Company may be required from time to time to purchase prepaid warrants at the default amount if the share limitation requirement prevents a holder from exercising his prepaid warrants in full. Further, the Company will be required to purchase all then outstanding prepaid warrants on February 19, 2004 for cash.

The Company has limited available financial resources with which to satisfy this contingent obligation to purchase prepaid warrants and there can be no assurance that the Company will have such resources on February 19, 2004, or on an earlier date should the holders of prepaid warrants attempt to exercise them in full and the share limitation prevents such exercise.

A holder of prepaid warrants who cannot exercise his warrant in full, with the consent of the holders of a majority of the prepaid warrants, alternatively can elect to require the Company to delist from the Nasdaq national market, seek qualification of the common stock on the over-the-counter electronic bulletin board and issue to the holder the full number of shares of common stock issuable upon exercise of the prepaid warrants.

If either this proposal or the following proposal to amend the certificate of incorporation to increase the number of shares of common stock of the Company authorized for issuance is not approved, the Company will not have the right to redeem the prepaid warrants if the exercise price fell below $4.02.

VOTE REQUIRED; BOARD RECOMMENDATION

Approval of this proposal requires the affirmative vote of the holders of a majority of the outstanding shares of common stock entitled to vote at the meeting.

A broker who holds shares in street name will not be entitled to vote on this proposal without instructions from the beneficial owner. Stockholders are urged to mark the boxes on the proxy card to indicate how their shares will be voted.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THIS PROPOSAL.

PROPOSAL TO AMEND CERTIFICATE OF INCORPORATION
TO INCREASE AUTHORIZED SHARES OF COMMON STOCK

The board has unanimously approved an amendment to the Company's certificate of incorporation to increase the number of shares of common stock which the Company shall be authorized to issue from 50,000,000 to 100,000,000.

WHY THE COMPANY IS REQUESTING APPROVAL OF THIS PROPOSAL

The Company is requesting approval of this proposal because the terms of the placement require it to seek shareholder approval for an increase in authorized capitalization of not less than 25,000,000 shares of common stock. The board believes such action to be in the best interests of the Company so as to make a sufficient number of additional shares available to satisfy the Company's obligations under the prepaid warrants and the incentive warrants, as well as for future employee benefit programs, possible acquisitions and financings and other corporate purposes.

The Company presently has a limited number of shares not reserved for future issuance. In addition to the [24,889,611] shares of common stock outstanding on the record date, [20,827,210] shares of common stock are, reserved for issuance upon exercise of the prepaid warrants, the incentive warrants and other outstanding common stock purchase warrants and options and the shareholder rights plan. The [4,283,179] shares of common stock remaining for further issuance is not sufficient, in the judgment of the board, for possible future issuances of common stock. If the certificate of incorporation is not amended to increase the number of shares of common stock authorized for issuance, the Company will be severely restricted in its ability to issue equity securities should it require additional financing. Moreover, under the terms of its existing credit agreement, the Company would need to obtain the consent of its lending banks if it were to incur additional indebtedness to satisfy its operating requirements.

Additionally, if this proposal or the proposal described earlier in this proxy statement for approval of the issuance of shares of common stock pursuant to the February 1999 private placement is not approved, the Company will not have the right to redeem the prepaid warrants if the market price fell below $4.02.

The authorization of additional shares is desirable to permit the board to satisfy the Company's obligations under the prepaid warrants should the market price decline at the time of exercise and also to permit the board to issue shares of common stock for other valid corporate purposes.

The additional shares of common stock may be issued from time to time as the board may determine without further action by the stockholders. With the exception of issuances

of common stock upon future exercises of the prepaid warrants and the incentive warrants and of options granted pursuant to the Company's employee benefit plans, as well as upon future exercises of certain other outstanding common stock purchase warrants, no issuances of any additional shares of common stock authorized by the proposed amendment are presently contemplated. The Company does not currently have any agreements, arrangements or understandings with respect to any acquisition, financing, stock split or dividend.

Stockholders do not currently possess, nor upon the adoption of the proposed amendment will then acquire, preemptive rights which would entitle such persons, as a matter of right, to subscribe for the purchase of any securities of the Company.

A broker who holds shares in street name will not be entitled to vote on this proposal without instructions from the beneficial owner. This inability to vote is referred to as a broker nonvote. Abstentions and broker nonvotes will be counted for purposes of determining the existence of a quorum at the meeting. However, since this proposal requires the affirmative vote of at least a majority of the shares of common stock outstanding as of the record date, abstentions and broker nonvotes will have the effect of a negative vote with respect to such proposal, but not as to the other matters to be considered at the meeting. Stockholders are urged to mark the boxes on the proxy card to indicate how their shares will be voted.

VOTE REQUIRED; BOARD RECOMMENDATION

Approval of this proposal requires the affirmative vote of the holders of a majority of the shares of common stock.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THIS PROPOSAL.

EXECUTIVE COMPENSATION

SUMMARY COMPENSATION

Set forth below is the aggregate compensation for services rendered in all capacities to the Company during its fiscal years ended September 30, 1998, 1997 and 1996 by its chief executive officer, each of its four other most highly compensated executive officers whose compensation exceeded $100,000 during its fiscal year ended September 30, 1998 and two other executive officers who would have been disclosed had they been employed at the fiscal year end.

SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

					LONG TERM COMPENSATION			
		ANNUAL COMPENSATION			AWARDS		PAYOUTS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS(1)	OTHER ANNUAL COMPEN- SATION	RESTRICTED STOCK AWARDS	NUMBER OF OPTIONS	LONG TERM INCENTIVE PAYOUTS	ALL OTHER COMPEN- SATION(2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Pat V. Costa................	1998	$315,016	$55,000	--	--	--	--	$2,400
Chief executive	1997	293,478	$50,000	--	--	--	--	$2,375
officer	1996	252,801	$85,000	--	--	--	--	$2,250
John J. Arcari(3)...........	1998	$175,008	$ 5,000	--	--	--	--	--
Former chief financial officer								
Curtis Howes................	1998	$143,616	$20,000	--	--	--	--	$ 300
Vice president								
Earl H. Rideout.............	1998	$150,010	$25,000	--	--	--	--	$2,400
Senior vice	1997	143,318	$25,000	--	--	--	--	$2,400
president	1996	122,747	$40,000	--	--	--	--	$2,250
Howard Stern................	1998	$165,006	$30,000	--	--	--	--	$2,400
Senior vice	1997	159,625	$30,000	--	--	--	--	$2,375
president	1996	144,544	$60,000	--	--	--	--	$2,250
Steven J. Bilodeau(4).......	1998	$232,497	$50,000	--	--	--	--	$2,400
Former executive	1997	206,545	$45,000	--	--	--	--	$2,375
vice president	1996	167,280	$75,000	--	--	--	--	$2,250
Robert H. Walker(5).........	1998	$151,362	$35,000	--	--	--	--	$2,400
Former senior	1997	159,625	$35,000	--	--	--	--	$2,375
vice president	1996	142,229	$60,000	--	--	--	--	$2,250

</TABLE>

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(1) Represents amounts earned in the prior fiscal year which were paid in the fiscal year shown. There were no bonuses earned for the fiscal year ended September 30, 1998.

(2) Represents accrued and vested payments under the Company's retirement investment plan.

(3) Mr. Arcari joined the Company in August 1997 as Vice President -- Finance. He resigned from the Company in March 1999.

(4) Mr. Bilodeau resigned from the Company in June 1998.

(5) Mr. Walker retired from the Company in March 1998.

OPTION GRANTS IN LAST FISCAL YEAR

Set forth below is information with respect to grants of stock options during the fiscal year ended September 30, 1998 by the Company to each of the named persons in the summary compensation table, above.

<TABLE>
<CAPTION>

NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE PER SHARE	EXPIRATION DATE	PRESENT VALUE(1)
<S>	<C>	<C>	<C>	<C>	<C>
Curtis W. Howes.............	16,667		$4.13	5/05/03	$14,601
Curtis W. Howes.............	16,667		4.13	7/01/03	16,808
Earl H. Rideout.............	7,743		4.13	7/22/05	11,182
Earl H. Rideout.............	34,263		3.19	9/01/04	66,662
Howard Stern................	30,000		4.13	6/26/08	71,523
Steven J. Bilodeau..........	10,000		4.13	6/26/01	16,714
Robert H. Walker............	15,000		4.13	6/26/04	37,784
	130,340	4.7%			

</TABLE>

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(1) Computed in accordance with the Black-Scholes option pricing model utilizing the following assumptions: volatility of 70%, risk-free interest rate of 4.3% and an expected life of five years.

OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION VALUES

Set forth below is further information with respect to the unexercised and exercised options to purchase the Company's common stock under the Company's stock option plans.

<TABLE>
<CAPTION>

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED(1)	NUMBER OF UNEXERCISED OPTIONS AT SEPTEMBER 30, 1998		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT SEPTEMBER 30, 1998(2)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Pat V. Costa...........	--	--	207,326	309,699	$200,131	--
John J. Arcari.........	--	--	20,000	80,000	--	--
Curtis W. Howes........	--	--	--	33,334	--	--
Earl H. Rideout........	--	--	32,994	42,006	38,056	--
Howard Stern...........	20,830	$30,786	15,000	60,970	--	--
Steven J. Bilodeau.....	--	--	37,973	172,027	--	--
Robert H. Walker.......	--	--	26,113	38,228	--	--

</TABLE>

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(1) Based on the exercise of 13,061 shares at $2.56 fair market value on the date of exercise less the $1.00 per share cost to exercise and the exercise of 7,769 shares at $2.56 fair market value on the date of exercise less the $1.22 per share cost to exercise.

(2) Based on the September 30, 1998 fair market value of $2.69 less the cost to exercise.

PENSION BENEFITS

The following table sets forth the estimated annual plan benefits payable upon retirement in 1999 at age sixty-five after fifteen, twenty, twenty-five, thirty and thirty-five years of credited service to the Company.

	YEARS OF SERVICE				
REMUNERATION	15	20	25	30	35
$100,000	$19,824	$26,432	$33,041	$33,041	$33,041
125,000	25,525	34,033	42,541	42,541	42,541
150,000	31,225	41,633	52,041	52,041	52,041
175,000	33,505	44,673	55,841	55,841	55,841
200,000	33,505	44,673	55,841	55,841	55,841
225,000	33,505	44,673	55,841	55,841	55,841
250,000	33,505	44,673	55,841	55,841	55,841
300,000	33,505	44,673	55,841	55,841	55,841
400,000	33,505	44,673	55,841	55,841	55,841
500,000	33,505	44,673	55,841	55,841	55,841

The amount of compensation covered by the Company's pension plan is determined in accordance with rules established by the internal revenue service and includes all dollar items shown on the summary compensation table with the exception of 401(k) contributions. Effective with the fiscal year beginning October 1, 1998, for purposes of calculating the pension benefit, earnings are limited to $160,000, as adjusted for any cost of living increases authorized by the internal revenue code. This earnings limit will continue to be $160,000 for calendar year 1999.

At September 30, 1998, Messrs. Costa, Rideout and Stern had, respectively, 14, 10 and 27 years of credited service with the Company.

A participant in the pension plan will receive retirement income based on 23% of his final average salary up to his applicable social security covered compensation level plus 38% of any excess, reduced proportionately for less than twenty-five years of credited service at normal retirement at age 65, subject to the $160,000 limit described above. Final average salary is defined in the pension plan as the average of a participant's total compensation during the five consecutive calendar years in the ten calendar year period prior to his normal retirement date which produces the highest average. A participant is 100% vested in his accrued pension benefit after five years of service as defined in the pension plan.

REPORT ON OPTION REPRICING

The Company's stock option plans were established as an employment incentive to retain persons necessary for the development and financial success of the Company. In June 1998, as a result of the decrease in the market price of the Company's common stock during the preceding months and recognizing that previously granted stock options had lost much of their value in motivating employees to remain with the Company and share in its overall financial goals, the board, pursuant to authority granted under the plans, approved the repricing of 2,169,141 options, including 54,411 options granted to certain executive officers. Such repricing was effected by offering to grant a reduced number of new options

at an exercise price of $4.13 per share, which was the fair market value of the Company's common stock on June 26, 1998, in exchange for the old options, based on a 2:3 replacement ratio. New options covering 1,446,399 shares were issued in replacement of old option, representing approximately 67% of the aggregate number of shares issuable under the old options. New option shares that would have vested by December 26, 1998 before the repricing would vest by the same date. The remaining shares will vest in accordance with the schedule in the old options. However, new options for Mr. Rideout will not become exercisable until the earlier of (i) July 22, 2004 or (ii) until the market price of the Company's common stock first equals or exceeds $18.25. All of the new options will expire on the date specified in the old options. The repricing of the old options reduced the total number of shares of the Company's common stock underlying all outstanding options immediately prior to such repricing by 722,742. Messrs. Costa, Arcari and Stern did not participate in the option repricing action.

TEN-YEAR OPTION REPRICING

The following table summarizes all repricings of options held by any executive officer of the Company during the Company's last ten fiscal years:

<TABLE>
<CAPTION>

NUMBER AND POSITION	DATE OF REPRICING	NUMBER OF SECURITIES UNDERLYING OPTIONS REPRICED OR AMENDED	NEW NUMBER OF OPTIONS	MARKET PRICE AT TIME OF REPRICING OR AMENDMENT	EXERCISE PRICE AT TIME OF REPRICING OR AMENDMENT	NEW EXERCISE PRICE	LENGTH OF ORIGINAL OPTION TERM REMAINING AT DATE OF REPRICING OR AMENDMENT IN YEARS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Pat V. Costa..................	6/26/98	--	--	--	--	--	--
Chief executive officer	7/22/97	400,000	309,699	$14.13	$18.25	$14.13	4.5
	3/26/92	56,668	56,668	$ 1.22	$ 4.06	$ 1.22	0.1
	12/12/91	113,332	113,332	$ 1.00	$ 4.06	$ 1.00	0.4
Curtis W. Howes...............	6/26/98	25,000	16,667	$ 4.13	$10.88	$ 4.13	4.8
Vice president	6/26/98	25,000	16.667	$ 4.13	$12.75	$ 4.13	5.0
John S. O'Brien...............	6/26/98	20,000	13,334	$ 4.13	$10.81	$ 4.13	4.8
Vice president							
Earl H. Rideout...............	6/26/98	11,614	7,743	$ 4.13	$14.13	$ 4.13	7.1
Senior vice president	7/22/97	15,000	11,614	$14.13	$18.25	$14.13	4.5
	3/26/92	9,990	9,990	$ 1.22	$ 5.50	$ 1.22	1.9
	12/12/91	20,010	20,010	$ 1.00	$ 5.50	$ 1.00	2.2
Howard Stern..................	6/26/98	--	--	--	--	--	--
Senior vice president	7/22/97	40,000	30,970	$14.13	$18.25	$14.13	4.5
	3/26/92	22,754	22,754	$ 1.22	$ 4.06	$ 1.22	0.1
	12/12/91	45,576	45,576	$ 1.00	$ 4.06	$ 1.00	0.4
Steven J. Bilodeau............	6/26/98	--	--	--	--	--	--
Former executive vice president	7/22/97	100,000	77,425	$14.13	$18.25	$14.13	4.5
	7/22/97	75,000	67,286	$14.13	$15.75	$14.13	5.6
	3/26/92	13,900	13,900	$ 1.22	$ 4.06	$ 1.22	0.3
	3/26/92	11,000	11,000	$ 1.22	$ 4.06	$ 1.22	0.8
	3/26/92	42	42	$ 1.22	$ 4.19	$ 1.22	1.8
	12/12/91	19,958	19,958	$ 1.00	$ 4.19	$ 1.00	2.1
	12/12/91	10,000	10,000	$ 1.00	$ 4.25	$ 1.00	3.5
	12/12/91	20,000	20,000	$ 1.00	$ 6.44	$ 1.00	1.8
Robert H. Walker..............	6/26/98	--	--	--	--	--	--
Former executive vice president	7/22/97	30,000	23,228	$14.13	$18.25	$14.13	4.5
	3/26/92	2,511	2,511	$ 1.22	$ 4.06	$ 1.22	0.8
	3/26/92	14,000	14,000	$ 1.22	$ 6.44	$ 1.22	1.5
	12/12/91	4,489	4,489	$ 1.00	$ 4.06	$ 1.00	1.1
	12/12/91	28,580	28,580	$ 1.00	$ 4.06	$ 1.00	0.4

</TABLE>

EMPLOYMENT AGREEMENTS

Mr. Pat Costa is employed as chief executive officer and president of the Company under an indefinite term agreement which currently provides for an annual base salary of $315,000. Pursuant to the terms of his employment agreement, Mr. Costa has been granted certain rights in the event of the termination of his employment or a change in control of the Company. Specifically, in the event of termination for any reason other than for cause and other than voluntarily, Mr. Costa will be entitled to the continuance of salary and certain fringe benefits for a period of twelve months and may exercise all outstanding stock options which are exercisable during the twelve-month period following termination at any time within such twelve-month period. In the event of the occurrence of a change in control of the Company (as defined in his employment agreement) and, further, in the event that Mr. Costa is not serving in the positions of chief executive officer, president and board chairman, other than for cause, within one year thereafter, Mr. Costa will be entitled to exercise all outstanding stock options, regardless of when otherwise exercisable, during the six-month period following the termination date of his employment.

The Company has also granted certain rights in the event of termination of employment to Messrs. Howes, Rideout and Stern. Specifically, in the event of involuntary termination other than for cause, each officer will be given three months severance pay and continued benefits, with the exception of Mr. Rideout whose employment agreement allows for six months severance pay. In addition, the Company has agreed to provide a maximum of one hundred days' advance written notice to Mr. Stern in the event the Company should desire to terminate his employment other than for cause. In such event, he shall be entitled to exercise all outstanding stock options, regardless of when otherwise exercisable, during a specified period following such termination.

DIRECTORS' COMPENSATION

The business of the Company is managed under the direction of the Company's board. The board consists of a single class of directors who are elected for a term of one year, such term beginning and ending at each annual meeting of stockholders.

During the fiscal year ended September 30, 1998, directors who were not otherwise employees of the Company were compensated at the rate of $1,500 for attendance at each one-day and $2,500 for each two-day meeting of the board or any of its committees, $750 for attendance at any second meeting held during the same day and $200 for participation at a telephonic meeting or execution of a consent in lieu of a meeting. In addition, outside directors are granted stock options periodically, typically on a yearly basis.

REPORT ON EXECUTIVE COMPENSATION

The Company does not have a compensation committee charged with reviewing and recommending to the board compensation programs for the Company's executive officers. These functions are performed by the board as a whole.

COMPENSATION PHILOSOPHY

The Company believes that executive compensation should:

- provide motivation to achieve strategic goals by tying executive compensation to Company performance, as well as affording recognition of individual performance,

- provide compensation reasonably comparable to that offered by other high-technology companies in a similar industry, and

- align the interests of executive officers with the long-term interests of the Company's stockholders through the award of equity purchase opportunities.

The Company's compensation plan is designed to encourage and balance the attainment of short-term operational goals, as well as the implementation and realization of long term strategic initiatives. As greater responsibilities are assumed by an executive officer, a larger portion of compensation is "at risk". This philosophy is intended to apply to all management.

COMPENSATION PROGRAM

The Company's executive compensation program has three major components: base salary, short-term incentive bonus payments and long-term equity incentives.

Compensation packages offered to executive officers are based primarily on the recommendations of nationally recognized compensation and benefits consulting firms hired by the Company. The Company seeks to position total compensation at or near the median levels of other high-tech companies in a similar industry.

Individual performance reviews are generally conducted annually. Increases in fiscal year 1998 were based on an individual's sustained performance, compensation study recommendations and the achievement of the Company's revenue, profit and earnings per share goals. The Company does not assign specific weighting factors when measuring performance; rather, subjective judgment and discretion is exercised in light of the Company's overall compensation philosophy.

Base salary is determined by evaluating individual responsibility levels utilizing independent compensation surveys to determine appropriate salary ranges and evaluating the individual performance.

Short-term incentive bonus payments, generally, are paid to executive officers on an annual basis. The award of bonuses and their size, in substantial part, are linked to predetermined earnings targets, creating direct linkage between pay and Company profitability. Such payments are generally made at the beginning of the fiscal year following the one for which the executive's performance was evaluated. No bonuses were awarded to any executive officer for fiscal 1998.

The board believes that executive officers who are in a position to make a substantial contribution to the long term success of the Company and to build stockholder value should have a significant equity stake in the Company's on-going success. Accordingly, one of the Company's principal motivational methods has been the award of stock options. In addition to financial benefits to executive officers, if the price of the Company's common stock during the term of any such option increases beyond such option's exercise price, the program also creates an incentive for executive officers to remain with the Company since options generally vest and become exercisable over a five-year period and the first increment is not exercisable until one year after the date of grant.

CHIEF EXECUTIVE OFFICER COMPENSATION

Mr. Costa's compensation is determined substantially in conformance with the compensation philosophy, discussed above, that is applicable to all of the Company's executive officers. Performance is measured against defined financial, operational, and strategic objectives. In establishing Mr. Costa's base salary and bonus, the board takes into account the Company's performance against both its own objectives and the industry of

which it is a part, as well as Mr. Costa's contribution to the Company's near- and long-term objectives.

Fiscal 1998 was an extraordinarily difficult year for the Company as well as for the semiconductor industry. The industry entered the fiscal year anticipating growth but, by March 1998, the Asian economic crisis had plunged semiconductor manufacturers and suppliers into a severe downturn, which did not abate during the year. The board believes Mr. Costa was instrumental in managing the Company through a series of difficulties brought about by this industry recession. Mr. Costa demonstrated leadership in reacting quickly to changes in the industry and in ensuring that the Company did not lose its strategic focus. Mr. Costa's base compensation reflects the board's belief that he is a valuable asset to the Company. Because the Company did not achieve its financial goals for fiscal 1998, Mr. Costa did not earn a bonus for that fiscal year.

TAX CONSIDERATIONS

Section 162(m) of the internal revenue code generally limits the deductibility of compensation in excess of $1 million paid to a Company's executive officer. Certain performance-based compensation is excluded by section 162(m)(4)(C) of the code in determining whether the $1 million limit applies. Currently the total compensation, including salary, bonuses and excludable stock options for any of the named executives does not exceed this limit. If in the future this regulation becomes applicable to the Company, the board will not necessarily limit executive compensation to that which is deductible, but will consider alternatives to preserving the deductibility of compensation payments and benefits to the extent consistent with its overall compensation objectives and philosophy.

SUMMARY

The Board will continue to review the Company's compensation programs to assure such programs are consistent with the objective of increasing stockholder value.

THE BOARD OF DIRECTORS

<TABLE>

<S>	<C>
Pat V. Costa, Chairman	
Frank A. DiPietro	Mark J. Lerner
Donald J. Kramer	Howard Stern
Jay M. Haft	Robert H. Walker
Tomas Kohn	

</TABLE>

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During the fiscal year ended September 30, 1998, the following officers participated in discussions concerning executive officer compensation: Pat V. Costa, John J. Arcari, Howard Stern and Robert H. Walker. Each of the named participants recused himself in discussions concerning his own compensation.

STOCK PERFORMANCE

The following graph compares the yearly percentage change in the cumulative total stockholder return on the Company's common stock during the five years ended September 30, 1998 with the total return on the standard & poor's 500 composite index and the NASDAQ non-financial index. The comparison assumes $100 was invested on September 30, 1993 in the Company's common stock and in each of the foregoing indices and assumes reinvestment of dividends.

FIVE YEAR CUMULATIVE PERFORMANCE
[Five Year Cumulative Performance Line Graph]

<TABLE>
<CAPTION>

RVSI	S	NASDAQ NON-FINANCIAL
<S>	<C>	<C>
100	100.00	100.00
163.3	103.70	99.40
620	134.70	138.60
353.3	162.30	161.80
450.1	228.30	217.30
71.7	249.60	219.90

</TABLE>

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Jay M. Haft, a director of the Company, is of counsel of Parker Duryee Rosoff & Haft, the Company's general counsel prior to March 1, 1997.

Mr. Mark J. Lerner, a director of the Company, is president of Morgen, Evan. Mr. Lerner, through Morgen, Evan, provided consultation services relative to the Company's international marketing and sales efforts. In accordance with an agreement dated December 1993, which was prior to his becoming a director, during the fiscal years ended September 30, 1996, September 30, 1997, and September 30, 1998, the Company compensated Mr. Lerner, through Morgen, Evan, in cash in the amounts of $87,369, $62,390, and $9,800, respectively, as well as with four-year warrants, at exercise prices of $12.88, $13.13, and $2.57, respectively, to acquire an aggregate of 42,434, 2,565, and 18,000 shares of the common stock, respectively. All warrants were issued at the fair market value of the common stock on the date of grant. The Company believes that the compensation paid by it to Morgen, Even, was no greater than what would have had to be paid to an unaffiliated person for substantially similar services.

RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS

The board has selected Deloitte & Touche LLP to audit the accounts of the

Company for the fiscal year ending September 30, 1999. Such firm, which has served as the Company's independent auditor since 1986, has reported to the Company that none of its members has any direct financial interest or material indirect financial interest in the Company.

Unless instructed to the contrary, the persons named in the enclosed proxy intend to vote the same in favor of the ratification of Deloitte & Touche LLP as the Company's independent auditors.

A representative of Deloitte & Touche LLP is expected to attend the meeting and will be afforded the opportunity to make a statement and/or respond to appropriate questions from stockholders.

SHAREHOLDER PROPOSALS

Shareholder proposals intended to be presented at the Company's 1999 annual meeting of stockholders pursuant to the provisions of Rule 14a-8, promulgated under the Exchange Act, must be received by the Company's offices in Canton, Massachusetts by December [9], 1999 for inclusion in the Company's proxy statement and form of proxy relating to such meeting.

ACCOMPANYING INFORMATION

Accompanying this proxy statement is a copy of the Company's annual report to shareholders for its fiscal year ended September 30, 1998. Such annual report includes audited financial statements of the Company for the three fiscal years ended September 30, 1998. A copy of the Company's quarterly report on form 10-Q for the three months ended December 31, 1998, containing unaudited financial statements for the dates and periods covered thereby, is attached as an exhibit to this proxy statement.

EXHIBIT I

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR QUARTER ENDED DECEMBER 31, 1998	COMMISSION FILE NUMBER 0-8623

ROBOTIC VISION SYSTEMS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

DELAWARE	11-2400145
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	IRS EMPLOYER IDENTIFICATION NUMBER
5 SHAWMUT ROAD, CANTON, MASSACHUSETTS	02021
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (781) 821-0830

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 twelve 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.

[X] Yes   [ ] No

Number of shares of Common Stock outstanding as of February 5, 1999 24,887,195

ROBOTIC VISION SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

PART 1. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	SEPTEMBER 30, 1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 2,653	$ 2,421
Accounts receivable, net	30,537	32,367
Inventories	31,333	36,213
Other current assets	1,467	1,226
Total current assets	65,990	72,227
Plant and equipment, net	15,265	17,591
Deferred income taxes	8,820	8,820
Goodwill	5,745	5,847
Other assets	18,090	17,086
Total assets	$ 113,910	$ 121,571
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	$ 36,000	$ 38,038
Accounts payable	19,436	21,388
Accrued expenses	19,186	21,073
Advance payments received	1,284	1,216
Total current liabilities	75,906	81,715
Long-term debt	3,029	3,059
STOCKHOLDERS' EQUITY:		
Common stock, authorized 50,000 shares, $0.01 par value; issued and outstanding 24,876 at December 31, 1998 and 24,870 at September 30, 1998	249	249
Additional paid-in capital	168,493	168,493
Accumulated deficit	(133,784)	(131,962)
Cumulative translation adjustment	17	17
Total stockholders' equity	34,975	36,797
Total liabilities and stockholders' equity	$ 113,910	$ 121,571

</TABLE>

See Notes to Consolidated Financial Statements

ROBOTIC VISION SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED RESULTS OF OPERATIONS

<TABLE>
<CAPTION>

	THREE MONTHS ENDED	
	DECEMBER 31, 1998	DECEMBER 31, 1997

	(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Revenues	$29,405	$53,788
Cost of revenues	16,834	27,745
Gross profit	12,571	26,043
Research and development expenses	5,590	6,629
Selling, general and administrative expenses	11,216	14,894
Merger expenses	--	623
Income (loss) from operations	(4,235)	3,897
Gain on sale of product line	(3,248)	--
Interest expense, net	835	246
Income (loss) before provision for income taxes	(1,822)	3,651
Provision for income taxes	--	108
Net income (loss)	$(1,822)	$ 3,543
Net income (loss) per share:		
Basic	$ (0.07)	$ 0.14
Diluted	$ (0.07)	$ 0.14
Weighted average shares:		
Basic	24,876	24,476
Diluted	24,876	25,444

See Notes to Consolidated Financial Statements

ROBOTIC VISION SYSTEMS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED DECEMBER 31, 1998	THREE MONTHS ENDED DECEMBER 31, 1997
	(UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
OPERATING ACTIVITIES:		
Net income (loss)	$(1,822)	$ 3,543
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Gain on sale of product line	(3,248)	--
Depreciation and amortization	2,632	1,660
Other	--	(20)
Changes in assets and liabilities:		
Accounts receivable	1,830	(3,120)
Inventories	4,432	(9,460)
Other current assets	(241)	(245)
Other assets	(1,748)	(3,177)
Accounts payable	(1,952)	1,100
Accrued expenses	(2,044)	2,323
Advance contract payments	68	(314)
Other long-term liabilities	--	(503)
Net cash used in operating activities	(2,093)	(8,213)
INVESTING ACTIVITIES:		
Additions to plant and equipment	(107)	(1,734)
Proceeds from sale of product line	4,500	--
Net cash provided by (used in) investing activities	4,393	(1,734)
FINANCING ACTIVITIES:		
Proceeds from the exercise of stock options and warrants	--	84

Borrowings (repayments) of bank debt	(2,025)	5,317
Repayments of long-term debt	(104)	(650)
Proceeds from long-term borrowings	61	--
Net cash provided by (used in) financing activities	(2,068)	4,751
Effect of exchange rate changes on cash and cash equivalents	--	4
Net increase (decrease) in cash and cash equivalents	232	(5,192)
Cash and cash equivalents -- beginning of period	2,421	8,811
Cash and cash equivalents -- end of period	$ 2,653	$ 3,619
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 835	$ 283
Income taxes paid	$ --	$ --

</TABLE>

See Notes to Consolidated Financial Statements

ROBOTIC VISION SYSTEMS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Balance Sheet of Robotic Vision Systems, Inc. and Subsidiaries (The "Company") as of December 31, 1998, the Consolidated Statements of Operations for the three month periods ended December 31, 1998 and 1997 and the Consolidated Statements of Cash Flows for the three month periods ended December 31, 1998 and 1997 have been prepared by the Company, without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial condition, results of operations and cash flows at December 31, 1998 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended September 30, 1998. The results of operations for the period ended December 31, 1998 are not necessarily indicative of the operating results for the full year.

2. INVENTORIES

Inventories at December 31, 1998 and September 30, 1998 consisted of the following;

<TABLE>
<CAPTION>

<S>	DECEMBER 31, 1998 <C>	SEPTEMBER 30, 1998 <C>
	(IN THOUSANDS)	
Raw Materials	$15,498	$17,124
Work-in-Process	7,532	10,429
Finished Goods	8,303	8,660
Total	$31,333	$36,213

</TABLE>

3. NOTES PAYABLE

The Company has a revolving credit agreement with three domestic banks which is collateralized by substantially all of the domestic tangible and intangible assets of the Company. The agreement has a term which expires in March 2000 and borrowings under the agreement currently bear interest at the prime rate plus one percent. At December 31, 1998, the Company had borrowings of

$35,475,000 outstanding which reflect the maximum commitment under the agreement. The agreement contains certain financial covenants, including minimum levels of profitability, liquidity and net worth, with which the Company has not been in compliance. Under an amendment executed in January 1999, the Company's banks have agreed to forebear their right to exercise any remedies under this agreement through March 19, 1999. However, absent continuation of waivers, the Company will be in noncompliance at the expiration of the waiver period. Accordingly, the borrowings under the agreement at December 31, 1998 and September 30, 1998 have been classified as current. The Company is currently working with its banks to modify the revolving credit agreement and establish new financial covenants.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 1998 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 1997

Results of Operations

Revenues were $29.4 million in the three months ended December 31, 1998 compared to $53.8 million in the three months ended December 31, 1997, a decline of 45%. The significantly lower revenues year-to-year reflect the effect of the severe semiconductor industry downturn which began in early calendar 1998. In the three months ended December 31, 1998, revenues for the Company's Semiconductor Equipment Group were less than half the level of the year earlier period. Revenues for the Company's Acuity CiMatrix division for 1-D and 2-D barcode reading and machine vision products were also down 10% from the year earlier period. In the three months ended December 31, 1998, revenues for the Company's Semiconductor Equipment Group represented 60% of total revenues, compared to 76% of total revenues in the three months ended December 31, 1997.

Revenues of $29.4 million in the three months ended December 31, 1998, were 3.5% higher than the fourth quarter of fiscal 1998 revenues of $28.4 million. Although revenues for Semiconductor Equipment Group were down slightly from the fourth quarter of fiscal 1998, the Company had a 40% increase in orders for these products over the preceding quarter. Revenues for the Company's Acuity CiMatrix division were up approximately 15% sequentially, primarily as a result of demand for its 1-D tunnel applications for postal service and material handling applications. In addition, the Company began delivering its new machine vision platform, Visionscape, during the three months ended December 31, 1998. Overall, the Company's orders were 30% higher than the fourth quarter of fiscal 1998 and were approximately 110% of revenues in the three months ended December 31, 1998.

The gross profit margin was 42.8% of revenues in the three months ended December 31, 1998 compared to 48.4% of revenues in the three months ended December 31, 1997. The lower gross profit margin year-to-year primarily reflects the impact of proportionately high level of fixed manufacturing costs on the significantly lower level of revenues. However, the gross profit margin in the three months ended December 31, 1998 improved 7.4% from the gross profit margin of 35.4% of revenues, excluding inventory provisions, in the fourth quarter of fiscal 1998. The sequential improvement was largely a result of a more favorable product mix, particularly for its Semiconductor Equipment Group, largely as a result of new products introduced during fiscal 1998.

Research and development expenses were $5.6 million, or 19.0% of revenues, in the three months ended December 31, 1998, compared to $6.6 million, or 12.3% of revenues, in the three months ended December 31, 1997. The Company has continued to invest in new product development, including new semiconductor inspection and component handling systems, as well as enhancing its 1-D barcode reading products and expanding its new machine vision platform, Visionscape. In December 1998, the Company's Acuity Cimatrix Division introduced the MXi, the first hand-held imager for reading digital direct part marks, 1-D barcodes and new, digital 2-D symbologies, such as the Data Matrix code. This product is a result of a joint venture with Polaroid Corporation which began in 1997. The MXi was co-designed and will be manufactured by Polaroid for RVSI's exclusive distribution. Initial deliveries of the MXi are expected to commence in the second half of

fiscal 1999. In the three months ended December 31, 1998, the Company capitalized $1.4 million in software development costs under Statement of Financial Accounting Standards No. 86., compared to $1.7 million in the three months ended December 31, 1997.

Selling, general and administrative expenses were $11.2 million, or 38.1% of revenues, in the three months ended December 31, 1998, compared to $14.9 million, or 27.7% of revenues, in the three months ended December 31, 1997. The lower level of expenses reflects a combination of the expense reduction steps taken by the Company in fiscal 1998, together with lower variable selling costs on the lower level of revenues.

Primarily as a result of the expense reduction steps taken by the Company since April 1998, total operating expenses have been lowered from $23.0 million in the second quarter of fiscal 1998 to $16.8 million in the first quarter of fiscal 1999. Compared to the fourth quarter of fiscal 1998, operating expenses in the first quarter of fiscal 1999 were down $2.5 million.

In December 1998, the Company sold its Aircraft Safety product line to a subsidiary of B.F. Goodrich for $4.5 million in cash. The Company no longer considered this technology a key component of its product portfolio or future strategic direction. The Company sold certain inventory, equipment and intellectual property in the transaction, resulting in a gain of $3.2 million. Proceeds from the sale were used for working capital requirements and to repay $2.0 million of outstanding bank debt.

Net interest expense was $0.8 million in the three months ended December 31, 1998, compared to $0.2 million in the three months ended December 31, 1997. The increase in interest expense primarily reflects the significantly higher level of bank borrowings in the three months ended December 31, 1998.

There was no tax provision in the three months ended December 31, 1998 due to the loss for the current fiscal quarter. The tax provision for the three months ended December 31, 1997 reflected minimum federal and state income taxes.

Excluding the $3.2 million gain from the sale of the Company's Aircraft Safety product line, the net loss for the three months ended December 31, 1998 was $5.1 million, or $0.20 per share, compared to net income of $3.5 million, or $0.14 per share, for the three months ended December 31, 1997. Including the $3.2 million gain, the total net loss for the three months ended December 31, 1998 was $1.8 million, or $0.07 per share.

Liquidity and Capital Resources

The Company's cash balance increased $0.2 million, to $2.7 million, in the three months ended December 31, 1998, as a result of $2.1 million of net cash used in operating activities, $0.1 million of net cash used for additions to plant and equipment, $4.4 million of net cash provided by the sale of a product line and $2.1 million of net cash used in financing activities.

The $2.0 million of net cash used in operating activities was primarily a result of the operating loss for the quarter, after non-cash depreciation and amortization charges. Although revenues were up sequentially, accounts receivable declined $1.8 million in the three months ended December 31, 1998 as a result of the Company's continued focus on asset management and a shorter acceptance cycle on new product installations. Inventories were reduced a further $4.4 million in the three months ended December 31, 1998 as the Company continued to consume short-term excess levels, particularly in its Semiconductor Equipment Group.

Additions to plant and equipment were $0.2 million in the three months ended December 31, 1998, which were substantially below depreciation charges of $1.5 million in the period. The increase in other long-term assets of $1.7 million primarily represents capitalized software development costs in the three months ended December 31, 1998.

The reductions in accounts payable and accrued expenses, combined, of $4.0 million largely reflects the continued low level of inventory purchases in the current fiscal period, as well as cash payments of $1.1 million for severance charges recorded in fiscal 1998.

At December 31, 1998, the Company had borrowings of $35.5 million outstanding under its revolving credit agreement with its domestic banks, compared to $37.5 million in borrowings outstanding at September 30, 1998. The Company is currently not in compliance with the financial covenants under the agreement. Under an amendment executed in January 1999, the Company's banks have agreed to forebear their right to exercise any remedies under this agreement until March 19, 1999. The Company is currently working with its banks to modify the revolving credit agreement and establish new financial covenants.

In January 1999, the Company signed a term sheet with an institutional investor for an equity financing which includes a beneficial conversion feature and also provides for warrants. The anticipated net proceeds from the initial round of financing is expected to be between $9.0 million and $10.0 million. The Company believes it will complete this transaction in the near future.

Management believes that through a combination of proceeds from the expected equity financing, obtaining additional external capital, its domestic banks continuing to waive non-compliance of financial covenants and cash flow from operations, the Company will have sufficient liquidity through at least September 30, 1999 to fund its cash requirements.

Effect of Inflation

Management believes that during the three months ended December 31, 1998 the effect of inflation was not material.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

This report contains forward-looking statements including statements regarding, among other items, financing activities and anticipated trends in the Company's business, which are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, some of which cannot be predicted or quantified and are beyond the Company's control. Future events and actual results could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Statements in this report, including those set forth in "Risk Factors" below, describe factors, among others, that could contribute to or cause such differences. The following "Risk Factors" should be read in conjunction with other risk factors detailed in the Company's most recent registration statement, annual report on Form 10-K and 10-K/A, and other filings with the Securities and Exchange Commission.

RISK FACTORS

Fluctuations in the Semiconductor Market

The semiconductor industry, which has been subject to significant market fluctuations and periodic downturns in the past, is currently still experiencing weak industry conditions. These weak industry conditions have had an adverse affect on the revenues and earnings of the Company, as well as other semiconductor capital equipment companies. Until semiconductor industry conditions further improve, the Company's revenues and earnings will continue to be adversely affected.

Bank Agreement

In March 1998, the Company entered into a bank financing agreement that contains certain restrictive financial covenants with which the Company has not been in compliance. All instances of noncompliance have been waived by the Company's lending banks through March 19, 1999; however, absent continuation of forebearance, or modification of the bank agreement, the Company will continue to be in noncompliance at the end of the forebearance period.

PART II. OTHER INFORMATION

ITEM 3. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit 27 -- Financial Data Schedule

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROBOTIC VISION SYSTEMS, INC.

Registrant

/s/ PAT V. COSTA

Pat V. Costa
President and CEO
Dated: February 12, 1999 (Principal Executive Officer)

/s/ JOHN J. ARCARI

John J. Arcari
Chief Financial Officer
(Principal Financial and
Dated: February 12, 1999 Accounting Officer)

ROBOTIC VISION SYSTEMS, INC.
5 Shawmut Road
Canton, Massachusetts 02021

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Pat V. Costa and Howard Stern as Proxies, each with the power to appoint his substitute, and hereby authorizes each of them, and each of them, to represent and vote, as designated on the reverse side hereof, all the shares of Common Shares of Robotic Vision Systems, Inc. (the "Company") held of record by the undersigned on April , 1999, at the Annual Meeting of Stockholders to be held on , May ,1999 or any adjournment thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED STOCKHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSALS 1, 2, 3 AND 4.

(To Be Signed on Reverse Side)

1. Election of directors:

(INSTRUCTION: To withhold authority to vote for any individual nominee, strike such nominee's name from the list at right)

<TABLE>
<CAPTION>

FOR all nominees	WITHHOLD AUTHORITY	NOMINEES:
<S>	<C>	<C>
listed at right (except as marked to the contrary at right) [ ]	to vote for all nominees listed at right [ ]	Pat V. Costa F.A. DiPietro, J.M. Haft, T. Kohn, D.J. Kramer, M.J. Lerner, H. Stern, R.H. Walker

</TABLE>

2. To consider and vote upon a proposal to authorized the issuance of shares of common stock pursuant to the terms of an $11,00,000 private placement of the Company's equity securities with certain institutional investors and their agent approve the transactions contemplated by the Securities Purchase Agreement dated as of February 18, 1999, including the issuance by the Company of $11,000,000 in stated value of Prepaid Warrants to purchase shares of Common Stock, of additional warrants to purchase 1,222,222 shares of Common Stock and of shares of Common Stock upon exercise of the Prepaid Warrants and the Additional Warrants.

FOR [ ] AGAINST [ ]

3. To consider and vote upon a proposal to award the Company's certificate of incorporation to increase the authorized number of shares of common stock from 50,000,000 to 100,000,000.

FOR [ ]   AGAINST [ ]

4. To ratify the selection of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending September 30, 1999.

FOR [ ]   AGAINST [ ]

5. To transact such other business as may properly come before the meeting.

PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

Signature

Date:

Signature, if held jointly

NOTE: Please sign exactly as name appears hereon. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by the President or other authorized officer. If a partnership, please sign in partnership name by an authorized person.