MILBERG WEISS BERSHAD
HYNES & LERACH LLP
WILLIAM S. LERACH (68581)
DARREN J. ROBBINS (168593)
401 B Street, Suite 1700
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

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BERGER & MONTAGUE, P.C.
DOUGLAS M. RISEN
1622 Locust Street
Philadelphia, PA 19103
Telephone: 215/875-3000
215/875-4604 (fax)

DONOVAN SEARLES, LLC
MICHAEL D. DONOVAN
1845 Walnut Street, Suite 1100
Philadelphia, PA 19103
Telephone: 215/732-6067
215/732-8060 (fax)

Attorneys for Plaintiff

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF CALIFORNIA

STEPHEN M. STRACHAN, On Behalf of Himself and All Others Similarly Situated, Plaintiff,	No. '03 CV 1832-K RBB
vs.	CLASS ACTION
SUREBEAM CORPORATION, LAWRENCE A. OBERKFELL and DAVID A. RANE, Defendants.	COMPLAINT FOR VIOLATION OF THE FEDERAL SECURITIES LAWS
	DEMAND FOR JURY TRIAL

INTRODUCTION

1. This is an action on behalf of purchasers of SureBeam Corporation ("SureBeam" or the "Company") publicly traded securities during the period from March 16, 2001 to August 20, 2003 (the "Class Period"). SureBeam provides electronic irradiation systems and services for the food industry.

2. During the Class Period, defendants caused SureBeam's shares to trade at artificially inflated levels through the issuance of false and misleading financial statements. As a result of this inflation, SureBeam was able to complete an initial public offering ("IPO") of 6.7 million shares, raising net proceeds of $60 million on March 16, 2001.

3. On July 30, 2003, the Company issued a press release entitled "SureBeam to Delay Earnings Announcement." The press release stated in part:

> SureBeam Corporation announced today that it is delaying the release of its second quarter earnings from its planned date of July 31, 2003. As previously reported by the Company in its Current Report on Form 8-K/A filed on June 11, 2003, on June 9, 2003, Deloitte & Touche LLP ("Deloitte & Touche") was named as the Company's independent auditor for the year ending December 31, 2003, replacing KPMG LLP. The Company's management has not completed preparation of the financial statements for the second quarter and Deloitte & Touche has not yet completed its review of those statements. In particular, Deloitte & Touche has not completed their analysis on particular contracts and the Company's accounting treatment used for such contracts.
>
> "We regret that this reporting delay is occurring," said SureBeam Chairman and Chief Executive Officer John C. Arme. "We intend to work hard to complete the process and we anticipate that our earnings will be released by August 12."

4. On August 12, 2003, the Company issued another press release entitled "SureBeam to Delay Earnings Announcement." The press release stated in part:

> SureBeam Corporation announced today that it is further delaying the release of its second quarter earnings from its planned release date of August 12, 2003. The Company plans to file a Form 12b-25 with the Securities and Exchange Commission in connection with the Company's Form 10-Q for the second quarter of 2003 and the announcement of the Company's results for the second quarter of 2003 will be delayed until after the Company's Form 10-Q for the second quarter has been filed.
>
> ***Deloitte & Touche LLP ("Deloitte & Touche") has not completed its reviews of the Company's financial statements. In particular, Deloitte & Touche has not completed its analysis on the accounting for specific contracts in prior years and the Company's accounting treatment used for its contracts.***
>
> As previously announced by the Company in its Current Report on Form 8-K/A filed on June 11, 2003, on June 9, 2003, Deloitte & Touche LLP was named as

the Company's independent auditor for the year ending December 31, 2003, replacing KPMG LLP.

5. On August 21, 2003, the Company issued a press release entitled "SureBeam Dismisses Auditor; Seeks to Resolve Issues." The press release stated in part:

> SureBeam Corporation announced today that it is dismissing its independent public auditor Deloitte & Touche LLP ("Deloitte & Touche"). On June 9, 2003, Deloitte & Touche was named as SureBeam's independent auditor for the year ending December 31, 2003, replacing KPMG LLP. Deloitte & Touche has raised issues of concern regarding accounting treatment used by SureBeam for certain transactions beginning in 2000. The Audit Committee and the Board of Directors of SureBeam have discussed these issues of concern with Deloitte & Touche and with SureBeam management.
>
> The Company believes that its financial statements which were audited by national accounting firms and filed with the Securities and Exchange Commission, were appropriate based on the facts and circumstances that existed at the time. However, the Board of Directors has determined that the issues raised by Deloitte & Touche are sufficiently important and that it wants these issues to be definitively resolved. Accordingly, the Board's Audit Committee is interviewing other national accounting firms for the purpose of conducting an independent review of these issues.

6. The stock dropped to $1.55 per share on this news.

JURISDICTION AND VENUE

7. The claims asserted arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act") and Rule 10b-5 promulgated thereunder. Jurisdiction is conferred by §27 of the 1934 Act. Venue is proper pursuant to §27 of the 1934 Act. Defendant SureBeam has its principal place of business at 9276 Scranton Road, San Diego, California, and SureBeam and/or the Individual Defendants conduct business in this District and the wrongful conduct took place here.

THE PARTIES

8. Plaintiff Stephen M. Strachan purchased SureBeam publicly traded securities as detailed in the attached Certification and was damaged thereby.

9. Defendant SureBeam provides electronic irradiation systems and services for the food industry.

10. Defendant Lawrence A. Oberkfell ("Oberkfell") was Chairman, President and CEO of SureBeam. Oberkfell assisted in the preparation of the false financial statements and repeated the contents therein to the market.

11. Defendant David A. Rane ("Rane") was CFO of SureBeam. Rane assisted in the preparation of the false financial statements and repeated the contents therein to the market.

12. Defendants Oberkfell and Rane are the "Individual Defendants." They are liable for the false statements pleaded in ¶¶19-20, 22-27, 29-30, 32-40, as those statements were "group-published" information.

BACKGROUND

13. SureBeam was formed as a wholly owned subsidiary of The Titan Corporation ("Titan") in 1999 and was originally called Titan Pacification, Inc.

14. Prior to August 4, 2000, the Company derived its revenues from the manufacturing of medical equipment sterilization and electronic food irradiation systems, providing medical equipment sterilization services and the manufacturing of linear electron beam accelerators for use by government agencies. Since August 4, 2000, its revenues have consisted of electronic food irradiation system sales, food processing revenue and revenues to Titan.

15. SureBeam struggled to find customers who could and would pay for its irradiation systems. In order to show growth in this important segment, SureBeam recognized revenue from customers who could not pay, including a Brazilian affiliate, Tech Ion Industrial Brasil S.A. ("Tech Ion").

16. In May 2000, Tech Ion entered an agreement with SureBeam for eleven electronic food irradiation systems, or approximately $55.0 million in revenue over the next three years. Under the percentage-of-completion method of accounting, $22.4 million was recognized from the agreement through September 30, 2001, even though Tech Ion did not have the ability to pay. In October 2001, purportedly in order to ensure the completion of the project with Tech Ion, SureBeam agreed with Tech Ion to purchase an additional 60.1% of SureBeam Brasil (a joint venture SureBeam had entered into with Tech Ion). In reality, this was the only way to reduce the huge receivable from Tech Ion. In connection with its purchase, SureBeam paid Tech Ion $750,000 upon the execution of the agreement and was to pay an additional $250,000 upon the completion of other parts of the project. Most significantly, SureBeam also exchanged trade receivables of $22.4 million due from

Tech Ion and forgave $3.5 million of a loan it had previously made to Tech Ion for building improvements and equipment.

17. Thus, some 56% of the non-affiliated party revenue SureBeam recognized for 2000 and 2001 was from a party which could not pay and for which SureBeam would forgive its receivables. SureBeam's statements about its revenue, growth and business were false and misleading.

FALSE AND MISLEADING STATEMENTS DURING THE CLASS PERIOD

18. On March 15, 2001, the Company issued its Prospectus for the Company's IPO, wherein the Company raised net proceeds of $60 million.

19. The Prospectus contained the Company's financial results for FY 2000 as follows:

STATEMENT OF OPERATIONS INFORMATION:	2000
Revenues	$29,448
Cost of revenues	19,602
Gross profit	9,846
Operating Expenses:	
Selling, general and administrative	8,640
Research and development	524
Income (loss) from operations	682
Interest expense, net	3,611
Income (loss) before tax	(2,929)
Income tax provision (benefit)	(1,130)
Net Income (Loss)	($1,799)
Basic earnings (loss) per share:	
Net income (loss)	($0.04)
Diluted earnings (loss) per share:	
Net Income (Loss)	($0.04)
Shares used in computing basic earnings (loss) per share	46,817
Shares used in computing diluted earnings (loss) per share	46,817

20. With respect to the Company's revenue recognition policy, the Prospectus stated:

> In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." This SAB summarizes the SEC's view in applying generally accepted accounting principles to revenue recognition in financial statements. Our accounting policies comply with the provisions of SAB 101.

21. The IPO was successful in that SureBeam was able to sell 6.7 million shares at $10 per share for net proceeds of $60 million.

22. On May 3, 2001, the Company issued a press release entitled "SureBeam Reports First Quarter Results: Revenues of $5.5 Million; Pasteurization Capacity Continues to Increase With the Construction of Two New Service Centers to Meet Expected Volume Demand." The press release stated in part:

> SureBeam Corporation today reported revenues of $5.5 million for the first quarter of fiscal 2001, an increase of 34% over $4.1 million in fiscal 2000, which excludes the effect of the medical sterilization and government linear accelerator business. SureBeam's gross margin for the first quarter of 2001 was 46%, compared to 41% for the first quarter of 2000. Pro forma net loss was $3.2 million or $0.07 per share, for the first quarter of fiscal 2001 compared to a net loss of $.5 million or $.01 per share, for the first quarter of 2000. This is SureBeam's first earnings release following the Company's Initial Public Offering which was completed March 16, 2001.
>
> Including depreciation, amortization of goodwill and other purchased intangibles, and deferred compensation, the net loss, in accordance with generally accepted accounting principles, for the first quarter of fiscal 2001 was $40.6 million or $.84 per share, compared to a net loss of $.6 million, or $.01 per share, for the same period last year.

23. On July 9, 2001, the Company issued a press release entitled "SureBeam Announces Preliminary Second Quarter Results." The press release stated in part:

> SureBeam Corporation today announced preliminary second quarter results. In line with previous guidance, the Company expects to report revenues for the second quarter of fiscal 2001 of between $8 and $10 million and pro forma net loss per share excluding depreciation, amortization of goodwill and other purchased intangibles and deferred compensation of $0.05 to $0.07.
>
> Actual results for the quarter will be released August 14, 2001. A conference call to discuss detailed results of the quarter will be held at that time.

24. On August 14, 2001, the Company issued a press release entitled "SureBeam Reports Second Quarter Results; Revenues of $9.6 Million; International Strategic Alliances Strengthened with Saudi Arabian Agreement to Purchase Systems." The press release stated in part:

> SureBeam Corporation today reported revenues of $9.6 million for the second quarter of fiscal 2001, an increase of 86% over $5.2 million in fiscal 2000, excluding the effect of the medical sterilization and government linear accelerator business. Included in SureBeam's 2001 second quarter revenue of $9.6 million was $1.0 million of sales to an affiliate. Revenue from third parties was $8.6 million, an increase of 66% over the second quarter of 2000. SureBeam's gross margin for the second quarter of 2001, excluding affiliate sales, was 39% compared to 32% for the second quarter of 2000. Pro forma net loss was $2.5 million or $.05 per share, for the second quarter of fiscal 2001 compared to a net loss of $.1 million or $.00 per share, for the second quarter of 2000.

Including depreciation, amortization of goodwill and other purchased intangibles, and deferred compensation, the net loss, in accordance with generally accepted accounting principles, for the second quarter of fiscal 2001 was $9.2 million or $.16 per share, compared to a net loss of $.6 million, or $.01 per share, for the same period last year.

25. On October 17, 2001, the Company issued a press release entitled "SureBeam Debuts New Food Safety Service Center in Chicago; Facility Doubles SureBeam's Processing Capacity for the Processing of Fresh or Frozen Meats and Other Food Products and Spices." The press release stated in part:

Tomorrow on October 18, SureBeam Corporation – innovator of the electron beam technology that safely removes dangerous bacteria from food – will debut its new Chicago Service Center, the nation's first SureBeam(R) facility capable of processing food simultaneously with SureBeam electron beam and x-ray technology.

"SureBeam's newest facility doubles SureBeam's processing capacity and gives greater processing flexibility," says Larry Oberkfell, SureBeam's president and CEO. "A key innovation is its capability to use high-volume e-beam and x-ray scanning systems for eliminating the threat of harmful food borne bacteria simultaneously, so as to accommodate differences in product size and shape."

26. On October 17, 2001, Titan and SureBeam issued a press release entitled "Titan Announces Plan to Spin Off SureBeam." The press release stated in part:

The Titan Corporation and SureBeam Corporation today announced that the Board of Directors of Titan had adopted a definitive plan to spin off SureBeam in the form of a tax-free stock dividend to Titan shareholders within the next 12 months. The plan involves filing a letter ruling request with the IRS seeking approval of the tax-free distribution. Titan intends to file the letter ruling request within the next few weeks and intends to execute the spin off as soon as practical following the receipt of that ruling.

Titan has agreed, subject to the consent of its lenders, to purchase a perpetual and exclusive, non-royalty bearing license to use SureBeam's intellectual property on all applications other than the 1.8 trillion pound worldwide food, animal hides, and flowers markets in return for the following: 1) to make available to SureBeam a $50 million line of credit, 2) to convert the current $75 million debt owed Titan to equity via an exchange for SureBeam stock, and 3) a cash payment of $8 million.

27. Also, on October 17, 2001, the Company issued a press release entitled "SureBeam Reports Record Revenues for Third Quarter and Gives Guidance for Fourth Quarter 2001 and Fiscal 2002; Company Also Announces Adoption by Titan's Board of Formal Plan to Distribute SureBeam Shares to Titan Shareholders." The press release stated in part:

SureBeam Corporation today reported revenues of $14.5 million for the third quarter of fiscal 2001, an increase of 138% over $6.1 million in fiscal 2000, excluding the effect of the medical sterilization and government linear accelerator business. Included in SureBeam's 2001 third quarter revenue of $14.5 million was $2.8 million of sales to an affiliate. Revenue from third parties was $11.7 million, an increase of 92% over the third quarter of 2000, excluding the effect of the medical sterilization and government linear accelerator business. SureBeam's gross margin for the third quarter of 2001, excluding affiliate sales, was 41% compared to 56% for the third quarter of 2000, excluding the effect of the medical sterilization and government linear accelerator business. Pro Forma net loss was $1.5 million or $.03 per share, for the third quarter of fiscal 2000 compared to a pro forma net income of $.3 million or $.01 per share, for the third quarter of 2000.

Including depreciation, amortization of goodwill and other purchased intangibles, and deferred compensation, the net loss, in accordance with generally accepted accounting principles, for the third quarter of fiscal 2001 was $7.7 million or $.14 per share, compared to a net loss of $.3 million, or $.01 per share, for the same period last year, excluding the effect of the medical sterilization and government linear accelerator business.

28. Between October 23, 2001 and November 2, 2001, Company insiders sold over 1 million shares of SureBeam stock at prices ranging from $10.17-$13.61 per share for proceeds of $13.3 million.

29. On February 11, 2002, the Company issued a press release entitled "SureBeam Reports Record Revenues for Three and Twelve Month Periods Ended December 31, 2001." The press release stated in part:

SureBeam Corporation today reported revenues of $11.6 million for the fourth quarter of fiscal 2001, an increase of 18% over $9.9 million in the comparable quarter of fiscal 2000. Included in SureBeam's 2001 fourth quarter revenue of $11.6 million was $12.5 million of sales to Titan Corporation (Titan), SureBeam's majority owner, related to the United States Postal Service (USPS) subcontract and $1.9 million of other sales to Titan. Revenue from third parties was negative $2.8 million, due to component parts that were transferred from third party contacts to the USPS subcontract in order to meet the contractual time constraints. SureBeam's gross margin for the fourth quarter of 2001 and 2000 was 25%. Pro forma net loss was $9.1 million, or $0.16 per share, for the fourth quarter of fiscal 2001 compared to a pro forma net income of $631,000, or $0.01 per share, for the fourth quarter of 2000.

Including depreciation, amortization of goodwill and other purchased intangibles, and deferred compensation, the net loss, in accordance with generally accepted accounting principles, for the fourth quarter of fiscal 2001 was $16.9 million, or $0.29 per share, compared to net income of $44,000, or $0.00 per share, for the same period last year.

30. On February 19, 2002, the Company issued a press release entitled "SureBeam Exchanges Approximately $75 Million in Outstanding Debt for SureBeam Stock." The press release stated in part:

SureBeam Corporation – innovator of the electron beam technology that safely removes dangerous bacteria from food – today announced that it has completed on February 13, 2002 the exchange of all of its $75 million of debt with its parent company, Titan Corporation, in accordance with an October 2001 agreement between

> the two companies. Under the terms of the agreement, Titan exchanged all of SureBeam's $75 million debt for SureBeam common stock at an average price of $9.54 per share. On October 17, 2001, Titan announced that its Board of Directors had adopted a definitive plan to spin off SureBeam in the form of a tax-free stock dividend to Titan shareholders. The equity Titan received as a result of this exchange is planned to be included in that tax-free stock dividend to Titan shareholders.
>
> "Removing virtually all of SureBeam's debt with Titan is a major financial benefit for us as we prepare to spin off from Titan," said Larry Oberkfell, SureBeam's president and CEO. "The execution of debt to equity exchange leaves SureBeam essentially debt-free at this time, giving us greater flexibility and more financial strength."

31. Between March 4, 2002 and March 13, 2002, Company insiders (including defendant Oberkfell, who sold 350,000 SureBeam shares at $5.50-$5.78 per share for proceeds of over $2 million) sold 480,000 SureBeam shares for $2.86 million in proceeds.

32. On April 25, 2002, the Company issued a press release entitled "SureBeam Reports Record First Quarter Revenues; Quarter Highlighted by Fresh Ground Beef Rollout at Retail and Restaurant Locations." The press release stated in part:

> SureBeam Corporation today reported record revenues of $7.0 million for the first quarter of fiscal 2002, an increase of 28% over $5.5 million in the comparable quarter of fiscal 2001. SureBeam's 2002 first quarter revenue of $7.0 million was comprised of $2.5 million of third party revenue, and $2.3 million related to the United States Postal Service subcontract and $2.2 million related to medical sterilization subcontracts, both with The Titan Corporation (Titan), SureBeam's majority owner....
>
> Pro forma net loss was $3.8 million, or ($0.06) per share, for the first quarter of fiscal 2002 compared to a pro forma net loss of $3.2 million, or $($0.07) per share, for the first quarter of 2001.

33. On July 29, 2002, the Company issued a press release entitled "SureBeam Reports Record Second Quarter Sales and Earnings and Gives Guidance for Fiscal 2002 and 2003." The press release stated in part:

> SureBeam Corporation today reported record second quarter revenues of $10.8 million for fiscal 2002, an increase of 12% over $9.6 million in the second quarter of 2001. SureBeam's gross margin was 35% for the second quarter of 2002 and 2001. The net loss, in accordance with generally accepted accounting principles, for the second quarter of fiscal 2002 was $5.1 million, or $0.08 per share, compared to a net loss of $9.2 million, or $0.16 per share, for the same period last year, a per share improvement of 50%. Pro forma net loss was $276,000, or $0.00 per share, for the second quarter of fiscal 2002 compared to a pro forma net loss of $2.5 million, or $0.05 per share, for the second quarter of 2001.
>
> Revenues for the six month period ended June 30, 2002 were $17.8 million, an increase of 18% over $15.1 million for the same period in 2001. SureBeam's gross margin for the six month period ended June 30, 2002 was 28% compared to

> 39% for the six month period ended June 30, 2001. The net loss, in accordance with generally accepted accounting principles, for the six month period ended June 30, 2002 was $14.1 million, or $0.22 per share, compared to a net loss of $49.8 million, or $0.95 per share, for the same period last year. Pro forma net loss was $4.1 million, or $0.06 per share, for the six month period ended June 30, 2002 compared to a pro forma net loss of $5.7 million, or $0.11 per share, for the six month period ended June 30, 2001.

34. On October 31, 2002, the Company issued a press release entitled "SureBeam Reports Third Quarter Sales and Earnings." The press release stated in part:

> SureBeam Corporation today reported third quarter revenues of $7.0 million for fiscal 2002, and a loss per share of $0.16, consistent with the First Call consensus estimate of a loss per share of $0.16. Third quarter revenues of $7.0 million represented a decrease of 52% over $14.5 million in the third quarter of 2001. The net loss, in accordance with generally accepted accounting principles, for the third quarter of fiscal 2002 was $11.0 million, or $0.16 per share, compared to a net loss of $7.7 million, or $0.14 per share, for the same period last year.
>
> Revenues for the nine-month period ended September 30, 2002 were $24.8 million, a decrease of 16% over $29.6 million for the same period in 2001. The net loss, in accordance with generally accepted accounting principles, for the nine-month period ended September 30, 2002 was $25.1 million, or $0.38 per share, compared to a net loss of $57.5 million, or $1.08 per share, for the same period last year.

35. On December 2, 2002, the Company issued a press released entitled "SureBeam Corporation Announces $25 Million Private Placement of Common Stock; Funding to Finance Future Business Needs." The press release stated in part:

> SureBeam Corporation today announced that it has entered into definitive purchase agreements, subject to certain closing conditions and the receipt of required consents, with respect to the private placement of approximately 5,276,315 shares of SureBeam's common stock at $4.75 per share to seven institutional investors resulting in gross proceeds to SureBeam of approximately $25,062,500. As part of the transaction, the Company will issue to the investors warrants to purchase an aggregate of approximately 1,319,079 additional shares of SureBeam's common stock at an exercise price of $6.00 per share for a period of five years. After commissions and expenses, the net proceeds to the Company will be approximately $23,308,125. The proceeds will be used for working capital needs and general corporate purposes.

36. On February 20, 2003, the Company issued a press release entitled "SureBeam Reports Revenues for Three and Twelve Month Periods Ended December 31, 2002." The press release stated in part:

> SureBeam Corporation today reported revenues of $12.1 million for the fourth quarter of fiscal 2002, an increase of 4% over $11.6 million in the comparable quarter of fiscal 2001. Included in SureBeam's 2002 fourth quarter revenue of $12.1 million was $5.6 million of revenue from investee (Saudi Arabia RESAL contract), $3.4 million of revenue from non-affiliated parties and $3.1 million of revenue on contracts for The Titan Corporation clients. Food revenue, which includes revenue

from non-affiliated parties and investee, represents an increase of $8.5 million over the same period in 2001. Revenue from non-affiliated parties was comprised of $3.1 million for system sales and $0.3 million of revenue from processing. SureBeam's gross margin for the fourth quarter of 2002 was 5.7%, as compared to the same period in 2001 of 25%. The net loss, in accordance with generally accepted accounting principles, for the fourth quarter of fiscal 2002 was $10.0 million, or $0.14 per share, compared to a net loss of $16.9 million, or $0.29 per share, for the same period last year. Included in the net loss for the quarter ended December 31, 2002 was a loan receivable valuation reserve charge of $4.2 million. Also included in the net loss was a non-cash charge of stock based compensation of $2.8 million and $5.1 million for the quarter ended December 31, 2002 and 2001, respectively.

"Throughout 2002 the effectiveness and safety of the SureBeam technology was demonstrated for all to see as grocery store retailers accelerated their rollouts of SureBeam processed fresh ground beef," said Larry Oberkfell, President and CEO of SureBeam. "Driving this was a significant expansion in the overall distribution of our professor customer sales of SureBeam processed fresh ground beef to both retail and foodservice customers. Consumer demand is obviously growing, as folks are embracing this as an added measure of food safety in the products they purchase for their families. As recently as September 2002, SureBeam processed fresh ground beef products could be found in less than 100 stores and that number has now grown to over 3,300. Just this month alone, we rolled out fresh ground been to over 1,000 new stores," Oberkfell continued.

37. On May 7, 2003, the Company issued a press release entitled "SureBeam Reported Revenues for First Quarter 2003 and Updates Outlook for Year." The press release stated in part:

SureBeam Corporation today reported revenues of $6.1 million for the first quarter of fiscal 2003, a decrease of 13% over $7.0 million in the comparable quarter of fiscal 2002. The components of 2003 first quarter revenue compared to the first quarter of 2002 were: non-affiliated party system sales and support of $1.9 million versus $1.2 million, an increase of 60%; investee system sales and support of $2.3 million versus $1.1 million, in increase of 113%; The Titan Corporation systems sales and support of $1.6 million verus $4.5 million, a decrease of 64%; and food processing services revenue of $309,000 versus $263,000, an increase of 17%. The decrease in The Titan Corporation system sales and support is primarily related to the decrease in work performed on the U.S. Postal Service contract during the first quarter of 2002. The net loss, in accordance with generally accepted accounting principles, for the first quarter of fiscal 2003 was $6.7 million, or $0.09 per share, compared to a net loss of $9.0 million, or $0.14 per share , for the same period last year. The net loss for the first quarter of fiscal 2003 was positively impacted by the reversal of stock-based compensation on unvested options related to employee termination of $2.6 million, or $0.03 per share.

"The first quarter of 2003 was a very difficult quarter for the Company. However, we continued to make progress in our core food businesses," said David Rane, SureBeam Corporation's Chief Financial Officer. "As compared to the first quarter of 2002, food system sales and support from non-affiliated parties and investee grew 86% and food processing services revenue grew 17%. Pounds processed increased by 62% to 4.9 million pounds offset by a decrease in the average fee per pound charged. Also on the positive side, we expect to make the delayed shipment to Saudi during the second quarter and our engineers have started to return to Vietnam to resume installation on the Vietnam contract," Rane continued.

38. On June 3, 2003, the Company filed an 8-K which stated in part:

CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

The Audit Committee of the Board of Directors of SureBeam Corporation (referred to as "SureBeam," "our," or "we") considers and selects our independent auditor. As recommended and directed by our Audit Committee, on June 3,2003 we terminated KPMG LLP ("KPMG") as SureBeam's independent auditor and effective June 9, 2003, Deloitte & Touche LLP (Deloitte & Touche") was named as our independent auditor for the year ending December 31, 2003. KPMG was appointed the independent auditor of SureBeam on April 15, 2002, following the dismissal of Arthur Andersen LLP ("Arthur Andersen") on April 9, 2002.

During the year ended December 31, 2001, and the subsequent interim period through April 9, 2002, we had no disagreement with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure, which disagreement, if not resolved to Arthur Andersen's satisfaction, would have caused Arthur Andersen to make reference to the subject matter of such disagreement in connection with its report, and there occurred no reportable events as defined in Item 304(a)(I)(v) of Regulation S-K as promulgated by the Securities and Exchange Commission.

Arthur Andersen's report on our consolidated financial statements for the year ended December 31, 2001 did not contain an adverse opinion or disclaimer of opinion, nor was that audit report qualified or modified as to uncertainty, audit scope or accounting principles. Arthur Andersen's report on our consolidated financial statements for the year ended December 31, 2001 was issued on an unqualified basis in conjunction with the publication of our Annual Report to Stockholders and the filing of our Annual Report on Form 10-K.

During the period from April 15, 2002 to June 3, 2003, we had no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, auditing scope or procedure, which disagreement, if not resolved to KPMG's satisfaction, would have caused KPMG to make reference to the subject matter of such disagreement in connection with its report, and there occurred no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K promulgated by the Securities and Exchange Commission.

KPMG's report on our consolidated financial statements or the year ended December 31, 2002, did not contain an adverse opinion or disclaimer of opinion, nor was that audit report qualified or modified as to uncertainty, audit scope or accounting principles. KPMG 's report on our consolidated financial statements for the year ended December 31, 2002 was issued on an unqualified basis in conjunction with the publication of our Annual Report to Stockholders and the filing of our Annual Report on Form 10-K.

During the two most recent years ended December 31, 2002 and 2001, and the subsequent interim period through the date of this report, we did not consult with Deloitte & Touche regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

SureBeam provided KPMG with a copy of the foregoing disclosures. KPMG is in the process of reviewing the statements contained in this Form 8-K and we will file a letter from KPMG regarding such review when received.

39. On July 30, 2003, the Company issued a press release entitled "SureBeam to Delay Earnings Announcement." The press release stated in part:

> SureBeam Corporation announced today that it is delaying the release of its second quarter earnings from its planned date of July 31, 2003. As previously reported by the Company in its Current Report on Form 8-K/A filed on June 11, 2003, on June 9, 2003, Deloitte & Touche LLP ("Deloitte & Touche") was named as the Company's independent auditor for the year ending December 31, 2003, replacing KPMG LLP. The Company's management has not completed preparation of the financial statements for the second quarter and Deloitte & Touche has not yet completed its review of those statements. In particular, Deloitte & Touche has not completed their analysis on particular contracts and the Company's accounting treatment used for such contracts.
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> "We regret that this reporting delay is occurring," said SureBeam Chairman and Chief Executive Officer John C. Arme. "We intend to work hard to complete the process and we anticipate that our earnings will be released by August 12."

40. On August 12, 2003, the Company issued another press release entitled "SureBeam to Delay Earnings Announcement." The press release stated in part:

> SureBeam Corporation announced today that it is further delaying the release of its second quarter earnings from its planned release date of August 12, 2003. The Company plans to file a Form 12b-25 with the Securities and Exchange Commission in connection with the Company's Form 10-Q for the second quarter of 2003 and the announcement of the Company's results for the second quarter of 2003 will be delayed until after the Company's Form 10-Q for the second quarter has been filed.
>
> ***Deloitte & Touch LLP ("Deloitte & Touche") has not completed its reviews of the Company's financial statements. In particular, Deloitte & Touche has not completed its analysis on the accounting for specific contracts in prior years and the Company's accounting treatment used for its contracts.***
>
> As previously announced by the Company in its Current Report on Form 8-K/A filed on June 11, 2003, on June 9, 2003, Deloitte & Touche LLP was named as the Company's independent auditor for the year ending December 31, 2003, replacing KPMG LLP.

41. On August 21, 2003, the Company issued a press release entitled "SureBeam Dismisses Auditor; Seeks to Resolve Issues." The press release stated in part:

> SureBeam Corporation announced today that it is dismissing its independent public auditor Deloitte & Touche LLP ("Deloitte & Touche"). On June 9, 2003, Deloitte & Touche was named as SureBeam's independent auditor for the year ending December 31, 2003, replacing KPMG LLP. Deloitte & Touche has raised issues of concern regarding accounting treatment used by SureBeam for certain transactions beginning in 2000. The Audit Committee and the Board of Directors of SureBeam have discussed these issues of concern with Deloitte & Touche and with SureBeam management.
>
> The Company believes that its financial statements which were audited by national accounting firms and filed with the Securities and Exchange Commission, were appropriate based on the facts and circumstances that existed at the time. However, the Board of Directors has determined that the issues raised by Deloitte & Touche are sufficiently important and that it wants these issues to be definitively resolved. Accordingly, the Board's Audit Committee is interviewing other national

accounting firms for the purpose of conducting an independent review of these issues.

The primary issues which had not been resolved to the satisfaction of Deloitte & Touche involve certain aspects of SureBeam's revenue recognition policies and certain contracts entered into in 2000 and affecting subsequent periods, all of which have been disclosed in various filings with the SEC, including SureBeam's Registration Statement on Form S-1, declared effective by the Securities and Exchange Commission on March 15, 2001, and SureBeam's Forms 10-K for the years ended December 31, 2001 and 2002. Each of these filings contained financial statements which had been audited by national accounting firms.

Deloitte & Touche, recently retained on June 9, 2003 as SureBeam's independent auditor, has not performed an audit of SureBeam's financial statements, nor has it completed the review for the quarter ended June 30, 2003, which would have been the first review it performed for SureBeam.

John Arme, the Chief Executive Officer and Chairman of the Board, stated: "We do not want questions about prior accounting decisions to continually affect SureBeam's ability to grow. The Board feels that the only way to put these issues to rest is to have these issues reviewed and resolved as soon as possible."

SureBeam will file a Current Report on Form 8-K providing further description regarding the dismissal of Deloitte & Touche and the issues raised. The Audit Committee will interview independent public auditors for the purpose of replacing Deloitte & Touche. The Audit Committee has directed Deloitte & Touche to provide complete information regarding its accounting analysis to SureBeam's successor auditor when such is appointed.

42. On this news, SureBeam's stock dropped to $1.55 per share.

SUREBEAM'S FALSE FINANCIAL REPORTING DURING THE CLASS PERIOD

43. In order to inflate the price of SureBeam's stock and make its $67 million IPO successful, defendants caused the Company to falsely report its results for 2000 and 2001 through improper revenue recognition on work for a customer who was unable to pay for the work.

44. The 2000 results were included in the Prospectus/Registration Statement and the 2001 results were included in the Form 10-Qs and Form 10-Ks filed with the SEC. The results were also included in press releases disseminated to the public.

45. SureBeam inappropriately recorded transactions included in its 2000-2001 results, such that its financial statements were not a fair presentation of SureBeam's results and were presented in violation of Generally Accepted Accounting Principles ("GAAP") and SEC rules.

46. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular

time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosure which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

47. In the IPO Prospectus, the Company represented its financial statements were presented in conformity with GAAP and that its revenue recognition complied with SAB No. 101. In SureBeam's 2001 Form 10-K, it represented that it recognized revenue in accordance with GAAP. These representations were false.

48. Pursuant to GAAP, which describes the accounting for revenues, revenue should not be recognized unless there is persuasive evidence of an agreement, collection is probable and delivery has occurred. Pursuant to GAAP, as set forth in AICPA Statement of Position ("SOP") No. 81-1, revenue may be recognized under an incomplete contract, but only where certain conditions exist.

49. SOP 81-1.23 states in part:

> The use of the percentage-of-completion method depends on the ability to make reasonably dependable estimates. For the purposes of this statement, "the ability to make reasonably dependable estimates" relates to estimates of the extent of progress toward completion, contract revenues, and contract costs. The division believes that the percentage-of-completion method is preferable as an accounting policy in circumstances in which reasonably dependable estimates can be made and in which all the following conditions exist:
>
> - Contracts executed by the parties normally include provisions that clearly specify the enforceable rights regarding good or services to be provided and received by the parties, the consideration to be exchanged, and the manner and terms of settlement.
> - The buyer can be expected to satisfy his obligations under the contract.
> - The contractor can be expected to perform his contractual obligations.

50. The SEC, in SAB No. 101, reiterates that revenue should not be recognized unless it is realizable or collectible, such that collectiblity is "reasonably assumed."

51. During the Class Period, SureBeam improperly recognized revenue even though these conditions did not exist. Tech Ion could not pay for the work done by SureBeam, for which SureBeam recognized $22.4 million in 2000 and 2001. Thus, it was improper to record revenue under percentage of completion.

52. Due to these accounting improprieties, the Company presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

53. Further, the undisclosed adverse information concealed by defendants during the Class Period is the type of information which, because of SEC regulations, regulations of the national stock exchanges and customary business practice, is expected by investors and securities analysts to be disclosed and is known by corporate officials and their legal and financial advisors to be the type of information which is expected to be and must be disclosed.

FIRST CLAIM FOR RELIEF

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

54. Plaintiff incorporates ¶¶1-53 by reference.

55. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were materially false and misleading in that they contained material misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

56. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

(a) Employed devices, schemes, and artifices to defraud;

(b) Made untrue statements of material facts or omitted to state material facts necessary in order to make statements made, in light of the circumstances under which they were made, not misleading; or

(c) Engaged in acts, practices, and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of SureBeam publicly traded securities during the Class Period.

57. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for SureBeam publicly traded securities. Plaintiff and the Class would not have purchased SureBeam publicly traded securities at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

58. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of SureBeam publicly traded securities during the Class Period.

SECOND CLAIM FOR RELIEF

For Violation of §20(a) of the 1934 Act
Against All Defendants

59. Plaintiff incorporates ¶¶1-58 by reference.

60. The executive officers of SureBeam prepared, or were responsible for preparing, the Company's press releases and SEC filings. The Individual Defendants controlled other employees of SureBeam. SureBeam controlled the Individual Defendants and each of its officers, executives and all of its employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

CLASS ACTION ALLEGATIONS

61. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased SureBeam publicly traded securities (the "Class") on the open market during the Class Period. Excluded from the Class are defendants, directors and officers of SureBeam and their families and affiliates.

62. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. During the Class Period SureBeam had more than 75 million shares of stock outstanding, owned by thousands of persons.

63. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class which predominate over questions which may affect individual Class members include:

(a) Whether the 1934 Act was violated by defendants;

(b) Whether defendants omitted and/or misrepresented material facts;

(c) Whether defendants' statements omitted material facts necessary to make the statements made, in light of the circumstances under which they were made, not misleading; and

(d) Whether defendants knew or recklessly disregarded that their statements were false and misleading.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; and such equitable/injunctive or other relief as the Court may deem proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: September 12, 2003

MILBERG WEISS BERSHAD
HYNES & LERACH LLP
WILLIAM S. LERACH
DARREN J. ROBBINS

DARREN J. ROBBINS

401 B Street, Suite 1700
San Diego, CA 92101
Telephone: 619/231-1058
619/231-7423 (fax)

BERGER & MONTAGUE, P.C.
DOUGLAS M. RISEN
1622 Locust Street
Philadelphia, PA 19103
Telephone: 215/875-3000
215/875-4604 (fax)

DONOVAN SEARLES, LLC
MICHAEL D. DONOVAN
1845 Walnut Street, Suite 1100
Philadelphia, PA 19103
Telephone: 215/732-6067
215/732-8060 (fax)

Attorneys for Plaintiff

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Donovan Searles, LLC
1845 Walnut Street
Suite 1100
Philadelphia, PA 19103
(215) 732-6067
www.donovansearles.com

CERTIFICATION OF NAMED PLAINTIFF UNDER
THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

I, Stephen M. Strachan, declare as follows with respect to claims under the federal securities laws alleged:

1. I seek to join as one of the plaintiffs named in the foregoing action ("the Action").

2. I have reviewed the Action with my counsel and have authorized my joinder.

3. I did not purchase stock in Surebeam Corp. at the direction of its counsel or in order to participate in any private securities action.

4. I am willing to serve as a representative party on behalf of the class, including providing testimony at depositions and trial, if necessary.

5. The following sets forth all of my transactions during the class period in Surebeam Corp. stock:

PURCHASE OR SALE	TYPE OF ACCOUNT	NO. OF SHARES	PRICE PER SHARE	DATE
Purchase	Personal	349	$6.51	5/2/02
Sale	Personal	349	$1.51	10/10/02

6. T ie following sets forth all federal securities actions filed during the past three years in which I have served or sought to serve as representative parties on behalf of a class: **NONE.**

7. I will not accept any payment for serving as representative parties on behalf of the class beyond its pro rata share of any recovery to the class, plus reasonable costs and expenses (including lost wages) directly relating to the representation of the class, except as approved by the Court.

I declare under penalty of perjury that the foregoing is true and correct. Signed at Caprinteria, CA this 3rd day of September, 2003.

Stephen M. Strachan

Donovan Searles, LLC
1845 Walnut Street
Suite 1100
Philadelphia, PA 19103
(215) 732-6067
www.donovansearles.com

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